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FINANCIAL AND ADMINISTRATIVE MATTERS: HEADQUARTERS AGREEMENT BETWEEN UNIDO AND THE REPUBLIC OF AUSTRIA

Report by the Director-General

Summary

Reports on the status of the headquarters agreement between UNIDO and the Republic of Austria, as requested by the Industrial Development Board in decision IDB.14/Dec.23.

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Introduction

1. The present report is submitted to the General Conference in accordance with Industrial Development Board decision IDB.14/Dec.23. Information is provided on the conclusion of negotiations on the headquarters agreement and the text of the new agreement is presented to the Conference. Attention is drawn to some selected features of the agreement as well as implications for UNIDO.

I. BACKGROUND

2. The Constitution of UNIDO stipulates that "the organization shall conclude a headquarters agreement with the Host Government" (Article 20.2).

3. With the entry into force of the Constitution of UNIDO in 1985 and the conversion of UNIDO to a specialized agency of the United Nations, the conclusion of new headquarters agreements was required for UNIDO and for the United Nations Office at Vienna (UNOV), both of which had previously been covered by a single agreement concluded between the United Nations and the Republic of Austria in 1967, and subsequent supplementary agreements thereto.

4. The formal meeting on the conversion of UNIDO into a specialized agency held in 1983 had concluded that the new headquarters agreement should guarantee the same privileges and immunities as provided for in the existing agreement and that additional agreements should take into account the continued presence of UNIDO, the United Nations and the International Atomic Energy Agency (IAEA) at the Vienna International Centre (A/38/141, para. 31).

5. Consultations between representatives of the Federal Government of Austria, the United Nations and UNIDO started in 1985 for the purpose of establishing mutually acceptable texts and of ensuring that no legal lacuna would be created by the above developments.

6. Pending the conclusion of the new headquarters agreement, the old agreement and its supplementary agreements continued to apply through their interim extension in December 1985, as reflected in formal exchanges of letters between UNIDO and the Federal Ministry for Foreign Affairs of the Republic of Austria.

7. Progress reports on the consultations held between UNIDO and the Republic of Austria on the headquarters agreement were submitted to every session of the General Conference and regularly to the Industrial Development Board (for last report, see IDB.14/11).

II. CONCLUSION OF NEGOTIATIONS

8. The text of the headquarters agreement was authenticated by the Legal Advisers of UNIDO and the Ministry of Foreign Affairs of the Republic of Austria on 25 September 1995. It is anticipated that the agreement will be formally signed by the parties before the end of October 1995. The full text of the agreement is contained in the annex to the present document.

III. GENERAL CHARACTERISTICS OF THE NEW AGREEMENT

9. The objectives of the new agreement, as based on the historical background given above, have been: (a) to fill the constitutional requirement to conclude a separate agreement for the new Organization; (b) to incorporate into a single instrument the existing related supplementary agreements, exchanges of notes and notes verbales; and (c) to reflect developments in international law and evolving requirements of the Organization.

10. In general, the structure of the agreement follows that of the previous one and addresses all subjects normally covered in headquarters agreements of the United Nations and its specialized agencies. These include the extent and status of the headquarters seat of UNIDO and its protection; the legal status, privileges and immunities of the Organization in the host country; privileges and immunities of representatives to and officials of UNIDO, and experts on mission for UNIDO; and settlement of disputes and general provisions.

11. The new elements and features that characterize the new agreement can be described under the following four headings: consolidation; reformulation and clarification of texts; updating and adaptation; and innovations.

A. Consolidation

12. Since the entry into force of the 1967 headquarters agreement a series of supplemental agreements and exchanges of letters implementing its provisions or conferring further privileges and immunities have been concluded between the United Nations/UNIDO and the Government of Austria. At the same time, provisions of the headquarters agreement have been interpreted in notes verbales and letters from government authorities.[1] Most of these agreements and understandings have now been incorporated into the text of the new headquarters agreement.

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[1] A list of these instruments is available upon request.

13. The most notable example of this consolidation is the inclusion in the new agreement of the provisions of the agreement of 19 June 1981 between the Republic of Austria and the United Nations regarding the headquarters seat of the UNIDO and other United Nations offices at the Vienna International Centre (VIC). Likewise, the offer by the Government of Austria regarding the provision, free of charge, to the VIC-based organizations, of conference facilities outside the VIC, as contained in a note verbale of 23 October 1985, and its acceptance by UNIDO is now reflected in article II, section 13 of the new agreement. Other examples include article XII, section 37(g) on the exemption of officials from inheritance and gift taxes under certain conditions, and article XII, section 39(a) outlining the privileges and immunities of Austrian officials of the Organization, which hitherto have been regulated by an exchange of letters.

B. Reformulation and clarification of texts

14. Experience has shown that the provisions of some of the previously existing instruments could greatly benefit from reformulation and further clarification in order to eliminate any ambiguities in their interpretation or application. The opportunity afforded by the negotiation and drafting of the new agreement was fully utilized for this purpose and resulted in the incorporation in the new agreement of a number of reformulations and clarifications regarding the text of various provisions.

15. Thus, in article XII, section 40, of the new agreement it is now clearly established that the Government shall furnish UNIDO an identity card for each official of the Organization, instead of the previous provision which created the impression that the identity card would be given by the Government to the officials of the Organization. Similarly, article IX, section 26, clarifies the exemption of UNIDO officials from taxation of the benefits received from the United Nations Joint Staff Pension Fund. A further example of reformulation and clarification of texts is reflected in article XII, section 37(k), regarding the exemption of officials from national service obligations, whereby the Director-General has only to transmit to the Government a list of such officials of Austrian nationality, instead of the previous requirement of prior approval by the Government.

C. Updating and adaptation

16. During the long period of validity of the 1967 headquarters agreement, developments have taken place in international and local law, and also in technical areas touching upon the agreement. For example, in article III the international law concept of "extraterritoriality of the headquarters seat" has been replaced with the more modern concept of "inviolability of the headquarters seat." Another important example of updating and adaptation is reflected in article XI, section 31, regarding the privileges and immunities of missions accredited to UNIDO. In view of the conversion of the Organization from a subsidiary organ of the United Nations General Assembly to a specialized agency of the United Nations, the status of accreditation to UNIDO had to be adapted to its new status. Thus, it is now clearly established that Permanent Missions accredited to UNIDO, as a specialized agency, shall enjoy the same privileges and immunities as are accorded to diplomatic missions in the Republic of Austria. Moreover, the limiting reference to States members of the Industrial Development Board has been eliminated.

17. The references to the exemption of the Organization from payment of the employer's contribution to the new Family Burden Equalization Fund as well as the exemptions of UNIDO officials from the application of social security insurance laws in Austria and to participation in the social security scheme, respectively, have also been brought into line with the recent evolution of local legislation. In article VI, section 21(b), the immunity from censorship of UNIDO communications now extends to computer-based communications and sound and video recordings.

D. Innovations

18. A number of new elements, not contained in previous arrangements between UNIDO and Austria, have also been introduced into the headquarters agreement, the most important of which are:

(a) In addition to the privileges and immunities of members of Permanent Missions and other representatives of Member States, the agreement explicitly covers the privileges and immunities of members of permanent observer missions of non-member States, of intergovernmental organizations, and of other permanent observer missions, granted such status in accordance with the UNIDO Constitution (article X, section 29(i) and (ii); and article XI, section 32(a), (b) and (c));

(b) The agreement establishes for the first time the exemption of retired UNIDO officials from immigration restrictions in Austria, under modalities to be established by the Austrian Government (article XII, section 37(i));

(c) It is now stipulated in the headquarters agreement that spouses and dependent relatives of UNIDO officials shall have access to the Austrian labour market in accordance with Austrian law, on a preferential basis (article XII, section 37(j));

(d) The new agreement recognizes that UNIDO officials and members of their families shall have the

same right of access and on the same terms as Austrian citizens to universities and other institutions of higher education for the purpose of obtaining graduate and post-graduate degrees and related training leading to the attainment of the relevant educational and professional qualifications required in Austria (article XII, section 37(p));

(e) A most-favoured intergovernmental organization clause is now included in the agreement, whereby the Government of Austria shall extend to UNIDO such more favourable terms and conditions as may be contained in any agreement concluded by the Government with any other intergovernmental organization (article XV, section 55(b));

(f) Another new element is the explicit reference to immunity from legal process of persons of Austrian nationality or stateless persons who are members of Permanent Missions accredited to UNIDO (article XI, section 34);

(g) The supply of goods or services purchased by UNIDO for immediate export or use abroad will henceforth be explicitly exempt from all taxes, recording fees and documentary taxes (article VII, section 24(c));

(h) The new agreement also contains an undertaking by the Government of Austria to ensure that whenever an official of UNIDO is detained or arrested by any Austrian authority, the Director-General shall be promptly informed and allowed access, correspondence and provision of legal and medical assistance to the official (article XII, section 40(c)).

IV. IMPLICATIONS FOR UNIDO

19. The finalization of the new agreement constitutes for UNIDO the fulfilment of the long outstanding constitutional requirement regarding the conclusion of a headquarters agreement with the host Government. It marks also the completion of the process of establishing UNIDO as an independent and autonomous Organization, with its own international legal personality, which enables it to rely, for its status, privileges and immunities in the host country, on instruments concluded by itself. Moreover, the conclusion of this agreement will pave the ground for the revision of certain supplementary agreements, such as the social security agreement, that require updating and adaptation to the evolving needs of the Organization.

V. ACTION REQUIRED OF THE CONFERENCE

20. The Conference may wish to consider adoption of the following draft decision:

"The General Conference:

"(a) Takes note of the report of the Director-General (GC.6/29);

"(b) Approves the headquarters agreement between UNIDO and the Republic of Austria as contained in the annex to document GC.6/29;

"(c) Authorizes the Director-General to bring the new headquarters agreement into force in the manner provided in section 58 thereof."

Annex

AGREEMENT BETWEEN THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION AND THE REPUBLIC OF AUSTRIA REGARDING THE HEADQUARTERS OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

BEARING in mind the agreement between the United Nations and the Republic of Austria regarding the Headquarters of the United Nations Industrial Development Organization of 13 April 1967 (hereinafter referred to as the "UNIDO Headquarters Agreement of 1967"), the Agreement between the United Nations and the Federal Government of the Republic of Austria regarding the Headquarters of the United Nations Industrial Development Organization and other Offices of the United Nations of 28 September 1979, and the Agreement between the United Nations and the Republic of Austria regarding the Headquarters Seat of the United Nations Industrial Development Organization and other United Nations Offices at the Vienna International Centre of 19 January 1981, as well as other agreements supplementary thereto;

CONSIDERING that the United Nations Industrial Development Organization became an independent organization, with its own legal personality, upon the entry into force of its Constitution on 21 June 1985;

FURTHER to the several exchanges of notes of 20 December 1985 between the Federal Government of the Republic of Austria and the United Nations Industrial Development Organization extending, as regards the United Nations Industrial Development Organization, the provisions of the UNIDO Headquarters Agreement and related instruments between the Republic of Austria and the United Nations Industrial Development Organization, for an interim period until their replacement by definitive instruments;

CONSIDERING that the Federal Government of the Republic of Austria has offered to the United Nations Industrial Development Organization and the United Nations Industrial Development Organization has accepted the use of land, buildings and facilities within the Vienna International Centre (hereinafter referred to as the "VIC");

NOW THEREFORE the United Nations Industrial Development Organization and the Republic of Austria have agreed as follows:

Article I

DEFINITIONS

Section 1

In this Agreement,

(a) The expression "the UNIDO" means the United Nations Industrial Development Organization;

(b) The expression "Government" means the Federal Government of the Republic of Austria;

(c) The expression "Director-General" means the Director-General of the UNIDO or any officer designated to act on the Director-General's behalf;

(d) The expression "competent Austrian authorities" means such federal, state, municipal or other authorities in the Republic of Austria as may be competent in the context and in accordance with the laws and customs applicable in the Republic of Austria;

(e) The expression "laws of the Republic of Austria" includes:

(i) The federal constitution and state constitutions; and

(ii) Legislative acts, regulations and orders issued by or under authority of the Government or of competent Austrian authorities;

(f) The expression "headquarters seat" means:

(i) The area occupied by the UNIDO in Vienna, as specified in Section 2; and

(ii) Any other land or building which may from time to time be included, temporarily or permanently, within that

seat in accordance with this Agreement or by supplementary agreement with the Government;

(g) The expression "Member State" means a State which is a member of the UNIDO;

(h) The expression "official of the UNIDO" means the Director-General and all members of the staff of the UNIDO, except those who are locally recruited and assigned to hourly rates;

(i) The expression "General Convention" means the Convention on the Privileges and Immunities of the United Nations approved by the General Assembly of the United Nations on 13 February 1946;

(j) The expression "Pension Fund" means the United Nations Joint Staff Pension Fund.

Article II

THE HEADQUARTERS SEAT OF THE UNIDO IN VIENNA

Section 2

(a) The Government grants to the UNIDO, and the UNIDO accepts from the Government, the use and occupation in conjunction with the United Nations until 31 August 2078 of the area and premises shown on the map attached to this Agreement as the headquarters seat of the UNIDO. Within the designated area and premises, the UNIDO and the United Nations may arrange for the temporary or permanent allocation of space between themselves.

(b) The headquarters seat of the UNIDO in Vienna shall be within the area specified in sub-section (a) and shall not be removed therefrom unless the UNIDO should so decide. Any transfer of the UNIDO headquarters temporarily to another place shall not constitute a removal of the headquarters seat unless there is an express decision by the UNIDO to that effect.

(c) Any building in or outside of Vienna which may be used with the concurrence of the Government for meetings convened by the UNIDO shall be temporarily included in the headquarters seat. For all such meetings, the present Agreement shall apply *mutatis mutandis*.

(d) The competent Austrian authorities shall take whatever action may be necessary to ensure that the UNIDO shall not be dispossessed of all or any part of the headquarters seat without the express consent of the UNIDO.

Section 3

(a) The UNIDO shall have the right to use the headquarters seat in a manner consistent with the objectives and functions of the UNIDO as defined in its Constitution and in accordance with the provisions of this Agreement. In particular, the UNIDO may hold meetings in the headquarters seat, including international conferences, seminars, workshops and meetings of UNIDO's organs and subsidiary bodies.

(b) Without prejudice to the rights of the UNIDO referred to above, the Government retains the ownership over the area constituting the headquarters seat.

(c) The UNIDO may, after appropriate consultation with the Government, make space available in the headquarters seat to international governmental or non-governmental organizations for purposes connected with the activities of the UNIDO.

(d) If acceptable to the UNIDO and the Government, the UNIDO may let space in the headquarters seat to any natural or juridical person providing services to the UNIDO or its staff. The rent charged by the UNIDO to such persons shall, after consultations with the Government, be based on the commercially prevailing rates for such premises and be transferred in its entirety to the Government, except for payments relating to maintenance and operating costs which shall be retained by the UNIDO.

Section 4

The UNIDO shall pay to the Government with respect to the right to use the headquarters seat a rental of one Austrian Schilling per annum payable yearly in advance during the period of such use.

Section 5

(a) Alterations with respect to any of the buildings forming part of the headquarters seat, which may result in a change of a structural nature or architectural appearance, may be carried out by the UNIDO at its own expense and without the right to reimbursement only after having obtained the consent of the Government.

(b) Other alterations to the buildings or facilities forming part of the headquarters seat may be carried out by the UNIDO at its expense and without the right to reimbursement.

Section 6

The UNIDO shall be responsible at its own expense for the orderly operation and adequate main-

tenance of the buildings and facilities forming part of the headquarters seat and of the installations located therein and for minor repairs and replacements for the purpose of keeping them in good working order, and for any repairs or replacements which may be made necessary by faulty operation and inadequate maintenance.

Section 7

The Government shall carry out at its own expense repairs and replacements of buildings, facilities and installations made necessary by *force majeure* or by faulty material, design or labour used, within the responsibility of the Government, in their construction.

Section 8

The arrangements for financing the cost of major repairs and replacements of buildings, facilities and technical installations which are the property of the Government and form part of the headquarters seat shall be the subject of a separate agreement between the Parties and other international organizations at the VIC.

Section 9

Whenever the UNIDO has concluded an insurance contract to cover its liability for damages arising from the use of the headquarters seat and suffered by juridical or natural persons who are not officials of the UNIDO, any claim concerning the UNIDO's liability for such damages may be brought directly against the insurer before Austrian courts, and the insurance contract shall so provide.

Section 10

The UNIDO may, in accordance with arrangements made with the United Nations, use the United Nations Telecommunications Network. The Government shall, upon request, grant free of charge to the UNIDO for official purposes appropriate radio, telecommunications network and other facilities, in conformity with technical arrangements to be made with the International Telecommunications Union.

Section 11

The UNIDO may establish and operate research, documentation and other technical facilities of any type. These facilities shall be subject to appropriate safeguards which, in the case of facilities which might create hazards to health or safety or interfere with property, shall be agreed upon with the competent Austrian authorities.

Section 12

The facilities provided for in Sections 10 and 11 may, to the extent necessary for efficient operation, be established and operated outside the headquarters seat. The competent Austrian authorities shall, at the request of the UNIDO, make arrangements on such terms and in such manner as may be agreed upon by supplementary agreement, for the acquisition or use by the UNIDO of appropriate premises for such purposes, and for the inclusion of such premises in the headquarters seat.

Section 13

The Government shall place at the disposal of the UNIDO free of charge such conference facilities at the Austria Center Vienna or at equivalent facilities as are required for meetings organized by the UNIDO which cannot be accommodated in the conference facilities at the VIC.

Section 14

If the UNIDO should vacate the headquarters seat, it shall surrender the area occupied by that seat to the Government in as good a condition as reasonable wear and tear will permit provided, however, that the UNIDO shall not be required to restore the area to its shape and state prior to any alteration or change that may have been executed by the UNIDO or the Government in accordance with this Agreement.

Article III

INVIOLABILITY OF THE HEADQUARTERS SEAT

Section 15

(a) The Government recognizes the inviolability of the headquarters seat, which shall be under the control and authority of the UNIDO as provided in this Agreement.

(b) Except as otherwise provided in this Agreement or in the General Convention and subject to any regulation enacted under Section 16, the laws of the Republic of Austria shall apply within the headquarters seat.

(c) Except as otherwise provided in this Agreement or in the General Convention, the courts or other competent organs of the Republic of Austria shall

have jurisdiction, as provided in applicable laws, over acts done and transactions taking place within the headquarters seat.

Section 16

(a) The UNIDO shall have the power to make regulations, operative within the headquarters seat, for the purpose of establishing therein conditions in all respects necessary for the full execution of its functions. No law of the Republic of Austria which is inconsistent with a regulation of the UNIDO authorized by this section shall, to the extent of such inconsistency, be applicable within the headquarters seat. Any dispute between the UNIDO and the Government as to whether a regulation of the UNIDO is authorized by this section or as to whether a law of the Republic of Austria is inconsistent with any regulation of the UNIDO authorized by this section, shall be promptly settled by the procedure set out in Section 46. Pending such settlement, the regulation of the UNIDO shall apply and the law of the Republic of Austria shall be inapplicable in the headquarters seat to the extent that the UNIDO claims it to be inconsistent with its regulation.

(b) The UNIDO shall from time to time inform the Government, as may be appropriate, of regulations made by it in accordance with sub-section (a).

(c) This section shall not prevent the reasonable application of fire protection or sanitary regulations of the competent Austrian authorities.

Section 17

(a) The headquarters seat shall be inviolable. No officer or official of the Republic of Austria, or other person exercising any public authority within the Republic of Austria, shall enter the headquarters seat to perform any duties therein except with the consent of, and under conditions approved by, the Director-General. The service of legal process, including the seizure of private property, shall not take place within the headquarters seat except with the express consent of, and under conditions approved by, the Director-General.

(b) Without prejudice to the provisions of the General Convention or of Article X of this Agreement, the UNIDO shall prevent the headquarters seat from being used as a refuge by persons who are avoiding arrest under any law of the Republic of Austria, who are required by the Government for extradition to another country, or who are endeavouring to avoid service of legal process.

Article IV

PROTECTION OF THE HEADQUARTERS SEAT OF THE UNIDO

Section 18

(a) The competent Austrian authorities shall exercise due diligence to ensure that the tranquillity of the headquarters seat is not disturbed by any person or group of persons attempting unauthorized entry into or creating disturbances in the immediate vicinity of the headquarters seat, and shall provide at the boundaries of the headquarters seat such police protection as may be required for these purposes.

(b) The UNIDO and the competent Austrian authorities shall closely co-operate regarding the interrelation of effective security within and in the immediate vicinity outside the headquarters seat.

(c) If so requested by the Director-General, the competent Austrian authorities shall provide a sufficient number of police for the preservation of law and order within the headquarters seat.

(d) The UNIDO, in the preparation of its security regulations and procedures, shall consult with the Government with a view to achieving the most effective and efficient exercise of security functions.

Section 19

The competent Austrian authorities shall take all reasonable steps to ensure that the amenities of the headquarters seat are not prejudiced and that the purposes for which the headquarters seat is required are not obstructed by any use made of the land or buildings in the vicinity of the headquarters seat. The UNIDO shall take all reasonable steps to ensure that the amenities of the land in the vicinity of the headquarters seat are not prejudiced by any use made of the land or buildings in the headquarters seat.

Article V

PUBLIC SERVICES WITHIN THE HEADQUARTERS SEAT

Section 20

(a) The competent Austrian authorities shall exercise, to the extent requested by the Director-General,

their respective powers to ensure that the headquarters seat is supplied with the necessary public services, including, without limitation by reason of this enumeration, electricity, water, sewage, gas, post, telephone, telegraph, local transportation, drainage, collection of refuse, fire protection and snow removal from public streets, and that such public services are supplied on equitable terms.

(b) In case of any interruption or threatened interruption of any such services, the competent Austrian authorities shall consider the needs of the UNIDO as being of the same importance as those of essential agencies of the Government and shall take steps accordingly to ensure that the work of the UNIDO is not prejudiced.

(c) The Director-General shall, upon request, make suitable arrangements to enable duly authorized representatives of the competent public service bodies to inspect, repair, maintain, reconstruct and relocate utilities, conduits, mains and sewers within the headquarters seat under conditions which shall not unreasonably disturb the carrying out of the functions of the UNIDO.

(d) Where gas, electricity, water or heat is supplied by competent Austrian authorities, or where the prices thereof are under their control, the UNIDO shall be supplied at tariffs which shall not exceed the lowest comparable rates accorded to Austrian governmental administrations.

Article VI

COMMUNICATIONS, PUBLICATIONS AND TRANSPORTATION

Section 21

(a) All official communications addressed to the UNIDO or to any of its officials at the headquarters seat, and all outgoing official communications of the UNIDO, by whatever means or in whatever form transmitted, shall be immune from censorship and from any other form of interception or interference with their privacy. Such immunity shall extend, without limitation by reason of this enumeration, to publications, still and moving pictures, films, computer based communications, sound and video recordings.

(b) The UNIDO shall have the right to use codes and to dispatch and receive correspondence and other official communications by courier or in sealed bags, which shall have the same privileges and immunities as diplomatic couriers and bags.

Section 22

(a) The Government recognizes the right of the UNIDO freely to publish and broadcast within the Republic of Austria in the fulfilment of its purposes.

(b) It is, however, understood that the UNIDO shall respect any laws of the Republic of Austria, or any international conventions to which the Republic of Austria is a party, relating to copyrights.

Section 23

The UNIDO shall be entitled for its official purposes to use the railroad facilities of the Government at tariffs which shall not exceed the lowest comparable passenger fares and freight rates accorded to Austrian governmental administrations.

Article VII

FREEDOM FROM TAXATION

Section 24

(a) The UNIDO, its assets, income and other property shall be exempt from all forms of taxation; provided, however, that such tax exemption shall not extend to the owner or lessor of any property rented by the UNIDO.

(b) In so far as the Government, for important administrative considerations, may be unable to grant to the UNIDO exemption from indirect taxes which constitute part of the costs of goods purchased by or services rendered to the UNIDO, including rentals, the Government shall reimburse the UNIDO for such taxes by the payment, from time to time, of lump sums to be agreed upon by the UNIDO and the Government. It is, however, understood that the UNIDO will not claim reimbursement with respect to minor purchases. With respect to such taxes the UNIDO shall at all times enjoy at least the same exemptions and facilities as are granted to Austrian governmental administrations or to chiefs of diplomatic missions accredited to the Republic of Austria, whichever are the more favourable. It is further understood that the UNIDO shall not claim exemption from taxes which are in fact no more than charges for public utility services.

(c) All transactions to which the UNIDO is a party, and all documents recording such transactions, shall be exempt from all taxes, recording fees and documentary taxes. This principle shall also apply to the supply of goods or services purchased by UNIDO for immediate export or use abroad.

(d) Articles imported or exported by the UNIDO for official purposes shall be exempt from customs duties and other levies, and from prohibitions and restrictions on imports and exports.

(e) The UNIDO shall be exempt from customs duties and other levies, prohibitions and restrictions on the importation of service automobiles and spare parts thereof, required for its official purposes.

(f) The Government shall, if requested, grant allotments of gasoline or other fuels and lubricating oils for each such automobile operated by the UNIDO in such quantities as are required for its work and at such special rates as may be established for diplomatic missions in the Republic of Austria.

(g) Articles imported in accordance with sub-sections (d) and (e) or obtained from the Government in accordance with sub-section (f) shall not be sold by the UNIDO in the Republic of Austria within two years of their importation or acquisition, unless otherwise agreed upon by the Government.

(h) The articles mentioned in sub-section (g) may be disposed of without charge only for the benefit of international organizations possessing comparable privileges or for the benefit of charitable institutions.

(i) The UNIDO shall be exempt from the obligation to pay employer's contributions to the Family Burden Equalization Fund or an instrument with equivalent objectives.

Article VIII

FINANCIAL FACILITIES

Section 25

(a) Without being subject to any financial controls, regulations or moratoria of any kind, the UNIDO may freely:

(i) Purchase any currencies through authorized channels and hold and dispose of them;

(ii) Operate accounts in any currency;

(iii) Purchase through authorized channels, hold and dispose of funds, securities and gold;

(iv) Transfer its funds, securities, gold and currencies to or from the Republic of Austria, to or from any other country, or within the Republic of Austria; and

(v) Raise funds through the exercise of its borrowing power or in any other manner which it deems desirable, except that with respect to the raising of funds within the Republic of Austria the UNIDO shall obtain the concurrence of the Government.

(b) The Government shall assist the UNIDO to obtain the most favourable conditions as regards exchange rates, banking commissions in exchange transactions and the like.

(c) The UNIDO shall, in exercising its rights under this section, pay due regard to any representations made by the Government insofar as effect can be given to such representations without prejudicing the interests of the UNIDO.

Article IX

SOCIAL SECURITY AND PENSION FUND

Section 26

The Pension Fund shall enjoy legal capacity in the Republic of Austria and shall enjoy the same exemptions, privileges and immunities as the UNIDO itself. Benefits received from the Pension Fund shall be exempt from taxation.

Section 27

The UNIDO and its officials shall be exempt from the application of all laws of the Republic of Austria on social insurance, except as provided in a supplemental Agreement.

Section 28

The Republic of Austria and the UNIDO shall through a supplemental agreement make such provisions as may be necessary to enable any official of the UNIDO who is not afforded social security coverage by the UNIDO to participate in any social security scheme of the Republic of Austria. The UNIDO may in accordance with the provisions of such a supplemental agreement arrange for the participation in the Austrian Social Insurance Scheme of those locally recruited members of its staff who do not participate in the Pension Fund or to whom the UNIDO does not grant social security protection at least equivalent to that offered under Austrian law.

Article X

TRANSIT AND RESIDENCE

Section 29

(a) In respect of the persons listed below, the Government shall take all necessary measures to facilitate their entry into and sojourn in the territory of the Republic of Austria, shall place no impediment in the way of their departure from the territory of the Republic of Austria, shall ensure that no impediment is placed in the way of their transit to or from the headquarters seat and shall afford them any necessary protection in transit:

(i) Members of Permanent Missions and other representatives of Member States, their families and other members of their households, as well as clerical and other auxiliary personnel and the spouses and dependant children of such personnel;

(ii) Members of Permanent Observer Missions o. non-Member States, members of Permanent Observer Missions of intergovernmental organizations, and members of other Observer Missions, granted such status in accordance with the Constitution of UNIDO, their families and other members of their households, as well as clerical and other auxiliary personnel and the spouses and dependent children of such personnel;

(iii) Officials of the UNIDO, their families and other members of their households;

(iv) Officials of the United Nations or of one of the Specialized Agencies, or of the International Atomic Energy Agency, who are attached to the UNIDO or who have official business with the UNIDO in Vienna, and their spouses and dependent children;

(v) Representatives of other organizations with which the UNIDO has established official relations, who have official business with the UNIDO;

(vi) Persons, other than officials of the UNIDO, performing missions authorized by the UNIDO or serving on committees or other subsidiary organs of the UNIDO, and their spouses;

(vii) Representatives of the press, radio, film, television or other information media, who have been accredited to the UNIDO after consultation between the UNIDO and the Government;

(viii) Representatives of other organizations or other persons invited by the UNIDO to the headquarters seat on official business. The Director-General shall communicate the names of such persons to the Government before their intended entry.

(b) This section shall not apply in the case of general interruptions of transportation, which shall be dealt with as provided in Section 20(b), and shall not impair the effectiveness of generally applicable laws relating to the operation of means of transportation.

(c) Visas where required for persons referred to in this section shall be granted without charge and as promptly as possible.

(d) No activity performed by any person referred to in sub-section (a) in his or her official capacity with respect to the UNIDO shall constitute a reason for preventing his or her entry into or his or her departure from the territory of the Republic of Austria or for requiring him or her to leave such territory.

(e) No person referred to in sub-section (a) shall be required by the Government to leave the territory of the Republic of Austria save in the event of an abuse of the right of residence, in which case the following procedure shall apply:

(i) No proceeding shall be instituted to require any such person to leave the territory of the Republic of Austria except with the prior approval of the Federal Minister for Foreign Affairs of the Republic of Austria;

(ii) In the case of a representative of a State, such approval shall be given only after consultation with the Government of the State concerned;

(iii) In the case of any other person mentioned in sub-section (a), such approval shall be given only after consultation with the Director-General and, if expulsion proceedings are taken against any such person, the Director-General shall have the right to appear or to be represented in such proceedings on behalf of the person against whom such proceedings are instituted; and

(iv) Persons who are entitled to diplomatic privileges and immunities under Section 38 shall not be required to leave the territory of the Republic of Austria otherwise than in accordance with the customary procedure applicable to members, having comparable rank, of the staffs of chiefs of diplomatic missions accredited to the Republic of Austria.

(f) This section shall not prevent the requirement of reasonable evidence to establish that persons claiming the rights granted by this section come within the categories described in sub-section (a), or the reasonable application of quarantine and health regulations.

Section 30

The Director-General and the competent Austrian authorities shall, at the request of either of them, consult as to methods of facilitating entrance into the territory of the Republic of Austria, and as to the use of available means of transportation, by persons coming from abroad who wish to visit the headquarters seat and who do not enjoy the privileges provided by Section 29.

Article XI

REPRESENTATIVES TO THE UNIDO

Section 31

Permanent Missions accredited to the UNIDO shall enjoy the same privileges and immunities as are accorded to diplomatic missions in the Republic of Austria.

Section 32

(a) Members of Permanent Missions to the UNIDO of Member States shall be entitled to the same privileges and immunities as the Government accords to members, having comparable rank, of diplomatic missions accredited to the Republic of Austria.

(b) Members of Permanent Observer Missions to the UNIDO of non-Member States and members of Permanent Observer Missions to the UNIDO of intergovernmental organizations shall be entitled to the same privileges and immunities as the Government accords to members, having comparable rank, of diplomatic missions accredited to the Republic of Austria.

(c) Without prejudice to any additional privileges and immunities the Government may grant unilaterally, members of other Permanent Observer Missions, granted such status in accordance with the UNIDO Constitution, shall be granted such immunities as may be necessary for the independent exercise of their functions in connection with the UNIDO.

Section 33

Representatives of States and of intergovernmental organizations to meetings of, or convened by the UNIDO, and those who have official business with the UNIDO, shall, while exercising their functions and during their journey to and from Austria, enjoy the privileges and immunities provided in Article IV of the General Convention.

Section 34

Having regard to Article 38(1) of the Vienna Convention on Diplomatic Relations (1961) and to the practice of the Republic of Austria, members of Permanent Missions and of Permanent Observer Missions referred to in Section 32, who are Austrian nationals or stateless persons resident in Austria, shall be accorded only immunity from legal process of every kind in respect of words spoken or written and all acts done by them in their capacity as members of such Permanent Missions and Permanent Observer Missions.

Section 35

In conformity with Article 42 of the Vienna Convention on Diplomatic Relations and the practice of the Republic of Austria, members of Permanent Missions and of Permanent Observer Missions referred to in Section 32, who are enjoying the same privileges and immunities as are accorded to members having comparable rank of diplomatic missions accredited to the Republic of Austria, shall not practice for personal profit any professional or commercial activity within the Republic of Austria.

Section 36

The UNIDO shall communicate to the Government a list of persons within the scope of this Article and shall revise such list from time to time as may be necessary.

Article XII

OFFICIALS OF THE UNIDO

Section 37

Officials of the UNIDO shall enjoy within and with respect to the Republic of Austria the following privileges and immunities:

(a) Immunity from legal process of any kind in respect of words spoken or written, and of acts performed by them, in their official capacity, such immunity to continue notwithstanding that the persons concerned may have ceased to be officials of the UNIDO;

(b) Immunity from seizure of their personal and official baggage;

(c) Immunity from inspection of official baggage and, if the official comes within the scope of Section 38, immunity from inspection of personal baggage;

(d) Exemption from taxation in respect of the salaries, emoluments, indemnities and pensions paid to them by the UNIDO for services past or present or in connection with their service with the UNIDO;

(e) Exemption from taxation in respect of benefits received from their participation in the Austrian Social Insurance Scheme;

(f) Exemption from taxation on all income and property of officials and members of their families forming part of their households, insofar as such income derives from sources, or insofar as such property is located, outside the Republic of Austria;

(g) Exemption from inheritance and gift taxes, except with respect to immovable property located in the Republic of Austria, insofar as the obligations to pay such taxes arise solely from the fact that the officials and members of their household reside or maintain their usual domicile in Austria;

(h) Exemption from vehicle's tax and engine-related insurance tax;

(i) Exemption, with respect to themselves, their spouses, their dependent relatives and other members of their households from immigration restrictions and alien registration. The same exemption from immigration restrictions shall also apply to retired officials of the UNIDO under modalities established by the Government;

(j) Spouses and dependent relatives living in the same household shall have access to the labour market in accordance with the Austrian law on a preferential basis. Insofar as they engage in gainful occupation, privileges and immunities shall not apply with respect to such occupation;

(k) Exemption from national service obligations, provided that, with respect to Austrian nationals, such exemption shall be confined to officials whose names have, by reason of their duties, been placed upon a list compiled by the Director-General and transmitted to the Government; provided further that should officials, other than those listed, who are Austrian nationals, be called up for national service, the Government shall, upon request of the Director-General, grant such temporary deferments in the call-up of such officials as may be necessary to avoid interruption of the essential work of the UNIDO;

(l) Freedom to acquire or maintain within the Republic of Austria or elsewhere foreign securities, foreign currency accounts, and other movable and, under the same conditions applicable to Austrian nationals, immovable property; and, at the termination of their assignment with the UNIDO, the right to take out of the Republic of Austria through authorized channels without prohibition or restriction, their funds, in the same currency and up to the same amounts as they had brought into the Republic of Austria;

(m) Without prejudice to the provisions of Section 18(e) of the General Convention and subsection (l), freedom to make, over and above the facilities granted by this Agreement, transfers to other countries;

(n) The same protection and repatriation facilities with respect to themselves, their spouses, their dependent relatives and other members of their households as are accorded in times of international crises to members, having comparable rank, of the staffs of chiefs of diplomatic missions accredited to the Republic of Austria;

(o) The right to import for personal use, free of duty and other levies, prohibitions and restrictions on imports:

(i) Their furniture and effects in one or more separate shipments, and thereafter to import necessary additions to the same;

(ii) One automobile and one motor cycle every four years;

(iii) Limited quantities of certain articles for personal use or consumption and not for gift or sale. The UNIDO may establish a commissary for the sale of such articles to its officials and members of delegations, the detailed rules for which are set out in the Agreements mentioned in Section 59(g).

(p) For themselves and members of their families on the same terms as Austrian citizens, the right of access to universities and other institutions of higher education for the purpose of obtaining graduate and post-graduate degrees and related training leading to the

attainment of the relevant educational and professional qualifications required in Austria.

Section 38

In addition to the privileges and immunities specified in Section 37:

(a) The Director-General shall be accorded the privileges and immunities, exemptions and facilities accorded to ambassadors who are heads of missions;

(b) A senior official of the UNIDO when acting on behalf of the Director-General during the latter's absence from duty, shall be accorded the same privileges and immunities, exemptions and facilities as are accorded to the Director-General;

(c) Except as provided in Section 39, other officials having the professional grade of P-5 and above, and such additional categories of officials as may be designated, in agreement with the Government, by the Director-General on the ground of the responsibilities of their positions in the UNIDO, shall be accorded the same privileges and immunities, exemptions and facilities as the Government accords to members, having comparable rank, of the staffs of chiefs of diplomatic missions accredited to the Republic of Austria;

(d) In conformity with Article 42 of the Vienna Convention on Diplomatic Relations and the practice of the Republic of Austria, officials enjoying the same privileges and immunities as are accorded to members having comparable rank of diplomatic missions accredited to the Republic of Austria shall not practice for personal profit any professional or commercial activity within the Republic of Austria;

(e) The members of the family of an official referred to in this Section, forming part of his or her household shall, if they are not Austrian nationals or stateless persons resident in Austria, enjoy those privileges and immunities specified for that category of persons by the Vienna Convention on Diplomatic Relations.

Section 39

(a) Except as otherwise provided, officials of the UNIDO who are Austrian nationals or stateless persons resident in Austria, shall enjoy only those privileges and immunities provided for in the General Convention, it being understood, nevertheless, that such privileges and immunities include:

(i) Exemption from taxation on benefits paid to them by the Pension Fund;

(ii) Access to the commissary established in accordance with Section 37(o)(iii).

(b) Officials of the UNIDO and the members of their families living in the same household to whom this Agreement applies shall not be entitled to payments out of the Family Burden Equalization Fund or an instrument with equivalent objectives, unless such persons are Austrian nationals or stateless persons resident in Austria.

Section 40

(a) The Director-General shall communicate to the Government a list of officials of the UNIDO and shall revise such list from time to time as may be necessary.

(b) The Government shall furnish the UNIDO for each official within the scope of this Article with an identity card bearing the photograph of the holder. This card shall serve to identify the holder in relation to all Austrian authorities.

(c) The Government shall ensure that whenever an official of the UNIDO is arrested or detained by any Austrian authority, the Director-General shall be promptly informed and allowed to send an official to visit the arrested or detained official, to converse and to correspond with the official and to provide to him or her such legal and medical assistance as may be required.

Section 41

The provisions of this Article shall also apply to officials of the United Nations, the specialized agencies and the International Atomic Energy Agency attached to the UNIDO.

Article XIII

EXPERTS ON MISSION FOR THE UNIDO

Section 42

Experts (other than officials of the UNIDO coming within the scope of Article XII) performing missions authorized by, serving on committees or other subsidiary organs of, or consulting at its request in any way with, the UNIDO shall enjoy, within and with respect to the Republic of Austria, the following privileges and immunities so far as may be necessary for the independent exercise of their functions:

(a) Immunity in respect of themselves, their spouses and their dependent children from personal arrest or detention and from seizure of their personal and official baggage;

(b) Immunity from legal process of any kind with respect to words spoken or written, and all acts

done by them, in the performance of their official functions, such immunity to continue notwithstanding that the persons concerned may no longer be employed on missions for, serving on committees of, or acting as consultants for, the UNIDO, or may no longer be present at the headquarters seat or attending meetings convened by the UNIDO;

(c) Inviolability of all papers, documents and other official materials;

(d) The right, for the purpose of all communications with the UNIDO, to use codes and to dispatch or receive papers, correspondence or other official material by courier or in sealed bags;

(e) Exemption with respect to themselves and their spouses from immigration restrictions, alien registration and national service obligations;

(f) The same protection and repatriation facilities with respect to themselves, their spouses, their dependent relatives and other members of their households as are accorded in time of international crises to members, having comparable rank, of the staffs of chiefs of diplomatic missions accredited to the Republic of Austria;

(g) The same privileges with respect to currency and exchange restrictions as are accorded to representatives of foreign Governments on temporary official missions;

(h) Without prejudice to the provision of Section 22(e) of the General Convention and subsection (g), freedom to make, over and above the facilities granted by this Agreement, transfers to other countries;

(i) The same immunities and facilities with respect to their personal and official baggage as the Government accords to members, having comparable rank, of the staffs of chiefs of diplomatic missions accredited to the Republic of Austria.

Section 43

(a) Where the incidence of any form of taxation depends upon residence, periods during which the persons designated in Section 42 may be present in the Republic of Austria for the discharge of their duties shall not be considered as periods of residence. In particular, such persons shall be exempt from taxation on their salaries and emoluments received from the UNIDO during such periods of duty and shall be exempt from all tourist taxes.

(b) Except as otherwise provided, persons designated in Section 42 who are Austrian nationals or stateless persons resident in Austria, shall enjoy only those privileges and immunities provided for in the General Convention, it being understood, nevertheless, that such privileges and immunities include exemption from taxation on pensions paid to them by the Pension Fund.

Section 44

(a) The UNIDO shall communicate to the Government a list of persons within the scope of this Article.

(b) The Government shall furnish the UNIDO for each person within the scope of this Article with an identity card bearing the photograph of the holder. This card shall serve to identify the holder in relation to all Austrian authorities.

Article XIV

SETTLEMENT OF DISPUTES

Section 45

The UNIDO shall make provision for appropriate methods of settlement of:

(a) Disputes arising out of contracts and disputes of a private law character to which the UNIDO is a party; and

(b) Disputes involving an official of or expert on mission for the UNIDO who, by reason of his or her official position, enjoys immunity, if such immunity has not been waived.

Section 46

(a) Any dispute between the UNIDO and the Government concerning the interpretation or application of this Agreement or of any supplementary agreement, or any question affecting the headquarters seat or the relationship between the UNIDO and the Government, which is not settled by negotiation or other agreed mode of settlement, shall be referred for final decision to a tribunal of three arbitrators: one to be chosen by the Director-General, one to be chosen by the Federal Minister for Foreign Affairs of the Republic of Austria, and the third, who shall be chairman of the tribunal, to be chosen by the first two arbitrators. Should either Party not have chosen its arbitrator within six months following the appointment by the other Party of its arbi

trator or should the first two arbitrators fail to agree upon the third within six months following the appointment of the first two arbitrators, such second or third arbitrator shall be chosen by the President of the International Court of Justice at the request of the UNIDO or of the Government.

(b) The Director-General of the UNIDO or the Government may ask the General Conference or the Industrial Development Board, as appropriate, to request of the International Court of Justice an advisory opinion on any legal question arising in the course of such proceedings. Pending the receipt of the opinion of the Court, any interim decision of the arbitral tribunal shall be observed by both Parties. Thereafter, the arbitral tribunal shall render a final decision, having regard to the opinion of the Court.

Article XV

GENERAL PROVISIONS

Section 47

The Republic of Austria shall not incur by reason of the location of the headquarters seat within its territory any international responsibility for acts or omissions of the UNIDO or of its officials acting or abstaining from acting within the scope of their functions, other than the international responsibility which the Republic of Austria would incur as a Member of the UNIDO.

Section 48

Without prejudice to the privileges and immunities accorded by this Agreement, it is the duty of all persons enjoying such privileges and immunities to respect the laws and regulations of the Republic of Austria, and not to interfere in the internal affairs of this State.

Section 49

(a) The Director-General shall take every precaution to ensure that no abuse of a privilege or immunity conferred by this Agreement shall occur, and for this purpose shall establish such rules and regulations as may be deemed necessary and expedient, for officials of the UNIDO and for such other persons as may be appropriate.

(b) Should the Government consider that an abuse of a privilege or immunity conferred by this Agreement has occurred, the Director-General shall, upon request, consult with the competent Austrian authorities to determine whether any such abuse has occurred. If such consultations fail to achieve a result satisfactory to the Director-General and to the Government, the matter shall be determined in accordance with the procedure set out in Section 46.

Section 50

This Agreement shall apply whether or not the Government maintains diplomatic relations with the State or Organization concerned and irrespective of whether the State concerned grants the same privilege or immunity to diplomatic envoys or nationals of the Republic of Austria.

Section 51

Whenever this Agreement imposes obligations on the competent Austrian authorities, the ultimate responsibility for the fulfilment of such obligations shall rest with the Government.

Section 52

The provisions of this Agreement shall be complementary to the provisions of the General Convention. Insofar as any provision of this Agreement and any provision of the General Convention relate to the same subject matter, the two provisions shall, wherever possible, be treated as complementary, so that both provisions shall be applicable and neither shall narrow the effect of the other.

Section 53

(a) This Agreement shall be construed in the light of its primary purpose of enabling the UNIDO at its headquarters seat in the Republic of Austria to fully and efficiently discharge its responsibilities and fulfil its purposes.

(b) Privileges and immunities are granted to officials and experts on mission in the interests of the UNIDO and not for the personal benefit of the individuals themselves.

(c) The Director-General shall have the right and the duty to waive the immunity of any official in any case where, in his or her opinion, the immunity would impede the course of justice and can be waived without prejudice to the interests of the UNIDO.

Section 54

Consultations with respect to modification of this Agreement shall be entered into at the request of the UNIDO or the Government. Any such modification shall be by mutual consent expressed in an exchange of letters or an agreement concluded by the UNIDO and the Government.

Section 55

(a) The UNIDO and the Government may enter into such supplemental agreements as may be necessary.

(b) If and to the extent that the Government shall enter into any agreement with any intergovernmental organization containing terms or conditions more favourable to that organization than similar terms or conditions of this Agreement, the Government shall extend such more favourable terms or conditions to the UNIDO, by means of a supplemental agreement.

Section 56

This Agreement shall apply, *mutatis mutandis*, to other offices of the UNIDO established in Austria, with the consent of the Government.

Section 57

This Agreement shall cease to be in force:

(a) By mutual consent of the UNIDO and the Government; or

(b) If the headquarters seat of the UNIDO is removed from the territory of the Republic of Austria, except for such provisions as may be applicable in connection with the orderly termination of the operations of the UNIDO at its headquarters seat in the Republic of Austria and the disposal of its property therein.

Section 58

This Agreement and the annex thereto shall enter into force on the date of exchange between the Government and the UNIDO of the instrument of ratification by the Government and the notification of approval by the UNIDO.

Section 59

Without prejudice to such other privileges and immunities as may have been granted by the laws of the Republic of Austria, this Agreement shall supersede the previous Headquarters Agreement of 1967 including all related instruments thereto, which were extended, for an interim period, in respect of UNIDO by Exchanges of Notes dated 20 December 1985, except for the following agreements which shall continue to be applicable to UNIDO and to which UNIDO shall be considered a party:

(a) Agreement between the United Nations and the Republic of Austria in regard to the provision at the Vienna International Centre for the United Nations and the International Atomic Energy Agency, of postal services including an Exchange of Notes dated 28 June 1979;

(b) Agreement between the United Nations, the International Atomic Energy Agency and the Federal Government of the Republic of Austria regarding the common headquarters area, dated 28 September 1979;

(c) Agreement between the United Nations, the International Atomic Energy Agency and the Republic of Austria regarding the headquarters area common to the United Nations and the International Atomic Energy Agency at the Vienna International Centre, dated 19 January 1981;

(d) Agreement between the United Nations, the International Atomic Energy Agency and the Republic of Austria regarding the establishment and administration of a common fund for financing major repairs and replacements at their headquarters seats at the Vienna International Centre, dated 19 January 1981, and amended by the Exchange of Notes dated 20 December 1985, as well as the Exchange of Notes of the same date regarding dispute settlement under this Agreement;

(e) Protocol of 19 January 1981 regarding the Provisional List of Main Elements referred to in Article 2, paragraph 2 of the Agreement between the United Nations, the International Atomic Energy Agency and the Federal Republic of Austria regarding the Establishment and Administration of a Common Fund for Financing Major Repairs and Replacements at the Vienna International Centre;

(f) Agreement between the United Nations Industrial Development Organization and the Government of the Republic of Austria concerning Social Security for officials of the UNIDO dated 15 December 1970;

(g) Supplemental Agreement of 1 March 1972 between the United Nations Industrial Development Organization and the Austrian Government for the purpose of implementing Section 27 (j)(iii) of the Agreement between the United Nations and the Republic of Austria regarding the Headquarters of UNIDO, of 13 April 1967, as amended by the Exchange of Notes of 8 December 1981 and the Exchange of

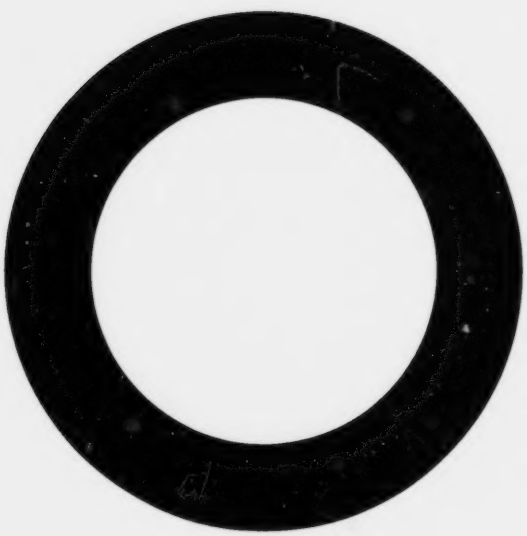
Notes of 20 December 1985 between the Federal Government of the Republic of Austria and the UNIDO extending, as regards the UNIDO, the provisions of certain supplemental agreements to the existing UNIDO Headquarters Agreement, for an interim period until their replacement by definitive instruments;

(h) Agreement between the United Nations Industrial Development Organization, the Organization of Petroleum Exporting Countries, and the Federal Government of the Republic of Austria regarding the access of officials of OPEC to the Commissary of the UNIDO, dated 28 October 1974.

DONE at Vienna, in duplicate, in the English and German languages, both versions being equally authentic, on the _____ day of _____ one thousand nine hundred and ninety-five.

FOR THE UNITED NATIONS
INDUSTRIAL DEVELOPMENT
ORGANIZATION

FOR THE REPUBLIC
OF AUSTRIA



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Item 8 (a) of the provisional agenda

UNIDO POLICY FRAMEWORK — ORGANIZATIONAL AND STAFF STRUCTURE

The UNIDO reform

Report by the Director-General

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Introduction

1. The present report is submitted in response to Industrial Development Board decision IDB.14/Dec.2 in which the Director-General is requested:

(a) To submit to the sixth session of the General Conference a report on the implementation of resolution GC.5/Res.18, including his proposals on the seven programmatic themes and focusing UNIDO activities for the 1996-1997 biennium ... and also to submit a timetable for its further implementation;

(b) To base the report on the progress indicators, as enumerated in the annex to decision IDB.14/Dec.2, due account being taken, where relevant, of comments made by delegations during the fourteenth session of the Industrial Development Board.

2. In preparing the present report, the outline annexed to the Board decision has been closely observed, with only marginal modifications aimed at improving the presentation and facilitating the understanding of the contents.

3. At the time of the sixth session of the General Conference in December 1995, two years will have passed since Member States unanimously approved at Yaoundé, in resolution GC.5/Res.18, the far-reaching reform of the Organization as proposed by the Director-General and already initiated in mid-1993.

4. It is thus opportune for Member States - as well as for the Secretariat - to review the implementation of the reform process and to assess its impact. This entails a stock-taking of the various measures introduced in terms of programmes, organizational structure, resource allocation, managerial approaches and work procedures; assessing progress in achieving the goals set for the overall reforms; and outlining the required adjustments and measures to be undertaken both in terms of further fine tuning and of meeting new and emerging challenges to the Organization. In fact, while UNIDO has been moving along the lines of reform set at Yaoundé, it also has had to face new reform tasks and adjustment pressures, *inter alia*, owing to prevailing uncertainties with respect to the future payment of assessed contributions by the major contributor.

5. After a review and assessment of the progress of the reform during the first quarter of 1995, the Director-General decided to accelerate the reform process with a view to ensuring enhanced impact by the end of 1995. In particular, seven thematic priorities were identified to further focus the services of the Organization. These seven priorities were submitted to and endorsed by the Programme and Budget Committee at its eleventh session. In the proposed programme and budgets, 1996-1997, for the first time the various substantive programmes of UNIDO have thus been made to converge towards addressing cross-organizational priorities.

6. In June 1995, an international bidding process was conducted and an experienced international consulting firm recruited that has been working in an interactive approach with UNIDO staff in a number of reform activities with a focus on administrative and procedural streamlining, efficiency enhancing, expenditure rationalization and related adjustment requirements in the organizational structure. The preliminary results of this process - which at the time of writing this progress report is still ongoing - are integrated herein.[1]

7. The present document thus presents a systematic account of progress in implementing reforms and of measures currently being undertaken or planned. It builds on other documents that provide a more detailed account of the sequence and range of action taken by UNIDO since the launching of the reform process. Specifically, reference is made to the documents listed in the annex to the present document. In each of those documents, specific measures undertaken are described in greater detail than can be covered in the wide overview. At the same time, the present document is designed to be self-contained and thus, where appropriate, incorporates in a concise manner key sections from some of those documents.

8. The present document has five main chapters. Chapter I, in providing a brief summary account of the main dimensions of the "Yaoundé reform" of UNIDO, lays the broad foundation for the subsequent more detailed presentation. Chapter II addresses the key issue of how the programmes of UNIDO have been reoriented

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[1] The joint interactive work of the international consulting firm and UNIDO staff has taken place in the framework of ten activity groups:

A1 The Importance of Industrialization - Development cooperation and the Mission of UNIDO
A2 Elaboration of the Seven Priorities
A3 Development of Specific High-impact Integrated Programmes
A4 Marketing:
- External Communications
- Competitors & Customers
- Industry

A5 Monitoring, Accountability, MIS System
A6 Project Cycle Management
A7 Administrative Processes and Decentralization of Administration
A8 Reallocation of Resources
A9 Culture, Communications, Attitudes
A10 Strengthening Field Representation.

and focused. It provides information both on the key dimensions and criteria of the new focus and on concrete changes within the various types of services rendered by UNIDO. Chapter III reviews the implementation of management reforms in key process dimensions with special emphasis on the management of technical co-operation, which has been geared to respond to the new approach of developing focused integrated programmes. New initiatives taken in the fields of external relations and communication as well as in public information and image-building are presented in chapters IV and V, respectively.

9. The present document is to be seen as providing comprehensive background information on the UNIDO reform and its impact in all relevant dimensions as explicitly requested in Board decision IDB.14/Dec.2. It will be complemented by a synopsis that will focus attention in a succinct manner on the main achievements, in particular those attained through the accelerated reform endeavours, during the last six months.

Summary and Outlook

10. The entire United Nations system is currently engaged in a thorough reform process in which an effective response to the challenge of dwindling financial resources as well as the need to attain a greater impact and sharper focus of programmes, and a balance between relief and development support are major issues.

11. The reform process of UNIDO was initiated at an early stage when no particular financial constraints for the Organization were anticipated. It was prompted by the perceived need to respond to changing patterns of demand for the services of the Organization and was thus from the outset driven primarily by substantive and efficiency considerations. At the same time, the basic postulates of the reform - the need to define a sharper substantive focus, to adjust the organizational structure accordingly, and to enhance process efficiency - have laid the foundation for a more effective and leaner UNIDO that would be better able to respond to different scenarios of development and resource availability. In particular, the reform process has enabled UNIDO to respond already in 1995 to the shortfalls in income from assessed contributions expected for 1996-1997.

12. The introduction of a leaner organizational structure and reduction of staff was achieved by abolishing one entire management level and reducing staff from some 1,350 (at the end of 1992) to currently 989 (including 128 common service staff in Buildings Management Services) supported by streamlined procedures and prudent personnel policies. UNIDO is thus now carrying out a more focused work programme with a significantly reduced number of staff.

Relevance of UNIDO

13. Parallel to the vigorous reform process launched at UNIDO, questions were raised in some international debates about the rationale of external support to the industrialization of developing countries at a time of increasingly market-based, private sector-led industrial development. At the same time, the continued and growing relevance of industrial development as a means to create productive employment, combat poverty and address national and global environmental issues has been confirmed at numerous high-level forums. It has been stressed that the "new industrial agenda" - characterized by the need to reconcile increased globalization and competition, deregulation and private sector emphasis with social and environmental sustainability - indeed calls for the strengthening of international support to developing countries and economies in transition in Eastern and Central Europe and NIS. This support is particularly important in terms of paving the way for dynamic private sector development and market mechanisms - particularly in countries where these are incipient or weak - with a view to capturing emerging opportunities and contributing to overall socio-economic growth in an increasingly integrated global production and trade system. UNIDO, as the lead agency for industrial development in the United Nations system, has been called upon to increase its specialized support to developing countries and economies in transition.

14. At the beginning of the reform process, UNIDO undertook an in-depth assessment of present patterns of demand for its services in the various developing regions. Based on this analytical work, UNIDO identified the contribution of industrialization - and in turn its own support function - within the context of five overall development objectives. These five objectives: (a) provide a conceptual basis for the grouping of present and future services in various areas of demand; (b) establish a framework for assessing the impact of UNIDO activities; and (c) strengthen the link with relevant development programmes of other United Nations system and bilateral agencies as well as with the endeavours of recipient countries themselves. They comprise:

(a) Industrial and technological growth and competitiveness;

(b) Development of human resources for industry;

(c) Equitable development through industrial development;

(d) Environmentally sustainable industrial development;

(e) International cooperation in industrial investment and technology.

15. As the substantive and programmatic basis for the reform process, a major re-orientation and focusing of UNIDO services has been undertaken. This has involved:

(a) The definition of the relevance and future role of UNIDO as a global forum on industrial development issues and as a provider of specialized services in response to demands from developing countries and countries in transition;

(b) The setting of priorities and formulation of a clear substantive focus for future activities of the Organization;

(c) The specification of core programmes to be implemented within the thematic priorities set for the next biennium.

Global forum function

16. The reformed UNIDO places greater emphasis than hitherto on its essential upstream function as a global forum, in direct contact with Governments, private industry itself and NGOs, for:

(a) Examining and addressing present and emerging industrial issues, particularly those relating to the sustainable industrialization of the developing countries in the changing global environment;

(b) Providing "normative" services that support the development, assess the implications and assist in the implementation of international conventions, codes and norms related to industry;

(c) Exchanging experience in promoting sustainable industrialization through innovative approaches;

(d) Establishing international partnerships and networks among industrial associations and other industry-related institutions, with a view to stimulating economic and technical cooperation among developing countries at different levels of industrialization;

(e) Developing comparable industrial statistics and standards to benchmark industrial performance.

17. UNIDO has reoriented its approaches to fulfil and foster this global forum function. This reorientation relates specifically to the promotional and networking services of the Organization, its industrial information services as well as its normative services and contributions to the United Nations system. While the latter have been strengthened in a number of areas, it is in particular the field of environmentally sustainable industrial development where UNIDO has come to be recognized as a key source of expertise and support in global programmes. Its rapidly growing role as implementing agency for the Montreal Protocol is only the most visible sign of this development.

Role as provider of focused services

18. UNIDO expertise is needed to render specialized, high-impact services to recipient countries. The need to put the limited staff and financial resources to the best possible use implies a sharp focus in UNIDO technical cooperation services and prime attention to be given to those developing countries most in need of support from the international community, i.e. the African countries and LDCs. The expected continuing strict resource constraints further imply that the core expertise at Headquarters will need to be concentrated in areas of high demand. This core expertise will be increasingly complemented by networking and contact-creating approaches in which UNIDO will rely on the services of external specialized centres some of which will be operated by the Organization itself. The latter applies, e.g., to cleaner production centres, specialized technology centres and human resource development centres.

19. Considerable efforts have been made towards adjusting the response of UNIDO to evolving demands for its services so as to ensure optimal use of the limited staff and other resources available to the Organization. Thus, the range of technical cooperation services provided by UNIDO has been reviewed and redefined with a view to attaining a sharper focus. This new focus is reflected in the geographical, sectoral and thematic dimensions:

(a) **Geographical focus**: While responding - in accordance with the principle of universality - to support requirements in all developing regions and in the economies in transition, the special focus of UNIDO technical cooperation services are the countries in Africa and the least developed countries (LDCs).

(b) **Sectoral focus**: UNIDO has accorded high priority status to a limited number of industrial subsectors (less than 50 per cent of the total number) on which the build-up of core staff expertise and the proactive programming of support services is concentrated. Within the Organization's sectoral Branches, the following industrial subsectors will receive priority attention in the future:

(i) Food processing, leather, textiles and wood processing within agro-based industries;

(ii) Metalworking and machine tools (with emphasis on agricultural machinery) within engineering industries;

(iii) Biotechnology, water management, medicinal plants, building materials and organic chemicals within chemical industries;

(iv) Environmental protection and energy-efficiency in industry, with particular attention to supporting the efforts of developing countries and economies in transition.

A large number of industrial subsectors have been assigned low priority while others have been classified as non-priority subsectors without specific coverage by UNIDO.

(c) **Thematic focus**: UNIDO has adopted seven thematic priorities as the cross-organizational focus for the 1996-1997 biennium. They will provide the overall direction towards which all substantive units of UNIDO will shift and focus their programming, conceptual and subsequent implementation work. The seven thematic priorities respond to identified demand for integrated, multidisciplinary services in support of industrial development and draw on the core expertise of the Organization. They comprise:

Theme 1: Strategies, policies and institution-building for global economic integration

Theme 2: Environment and energy

Theme 3: Small and medium enterprises: Policies, networking and basic technical support

Theme 4: Innovation, productivity and quality for international competitiveness

Theme 5: Industrial information, investment and technology promotion

Theme 6: Rural industrial development

Theme 7: Africa and LDCs: Linking industry and agriculture

20. Each of these seven thematic priorities has been operationalized by UNIDO in terms of the key issues faced by developing countries, the expertise available at UNIDO, the required cross-organizational cooperation and in particular, the focus on a limited number of core programmes to be implemented in the 1996-1997 biennium. A concise tabular presentation of the results is presented in chapter II of the present report.

21. The above three main dimensions of focus - geographical, sectoral and thematic - provide a clear framework and direction for the specialization of services provided by UNIDO. Concomitantly, UNIDO has identified a number of further criteria for defining activity areas that are de-emphasized. They imply:

(a) A focus on the manufacturing sector and manufacturing-related services, de-emphasizing areas such as mining, utilities and transportation unless directly connected with manufacturing activities and with environmental and energy-related issues;

(b) A focus on developing the private sector and working with private sector counterparts, de-emphasizing support to public manufacturing enterprises (unless linked to their restructuring and/or privatization) and de-emphasizing support to institutions without outreach to the private sector;

(c) A focus on large, integrated technical co-operation programmes and projects, de-emphasizing small projects unless of a strategic/seed nature or related to trouble-shooting services in response to urgent ad hoc requests;

(d) A focus on upstream support to policy makers and, above all, to industrial institutions and associations, de-emphasizing activities benefiting single enterprises (with the exception of Montreal Protocol projects and a limited number of self-financed trust fund projects);

(e) De-emphasis of a number of activity areas and approaches that have proven to have low impact or no longer respond to changing demands;

(f) A focus on activities and issues where UNIDO can add value at the international level and where it has a specific mandate and a comparative advantage among international organizations.

22. The new orientation and focusing of UNIDO services has been reviewed and its relevance confirmed at global and regional meetings of Member States. In June 1995, the Conference of African Ministers of Industry was held at Gaborone, Botswana. In September 1995, a meeting of Ministers of Latin American countries was held at Montevideo, Uruguay. The eleventh Congress of Heads of State or Governments of the Non-Aligned Movement was held at Cartagena, Colombia, in October 1995. The Ministers of Industry of Asia and the Pacific region met at New Delhi, India, from 19 to 20 October 1995. The Global Forum

on Industry took place at New Delhi, India, from 16 to 18 October 1995.

Management reform

23. As an integral part of the reform process, UNIDO has reviewed, assessed and re-engineered virtually all its managerial and administrative processes and procedures. Major achievements comprise:

(a) The strengthening of key management principles, above all introducing clear accountability for delegated responsibilities, and their application in various core processes;

(b) The introduction of new reporting mechanisms for monitoring and control;

(c) The conceptualization of a revised project cycle management approach, fully aligned with the new substantive focus, giving particular attention to improving the efficiency, effectiveness, quality and timely delivery of services;

(d) The streamlining of administrative processes in areas such as travel, consultancies, monitoring mechanisms, personnel management, financial management and communications - resulting in significant cost reductions;

(e) On the basis of analytical surveys, the redefinition of key functions of and services to be provided by UNIDO field offices.

24. An area in which managerial reform is critically linked to the substantive focus of UNIDO is the management of UNIDO services (project cycle management). This issue has been under close scrutiny throughout the reform process. New guidelines were issued in April 1994 introducing transparent procedures, decentralized quality assurance, a coherent programming framework, a strong emphasis on team-building, and an early screening process in developing UNIDO services. These new guidelines were reviewed after one year of experience. While the basic new principles introduced were found to be valid, a number of adjustment requirements were identified to align the guidelines with the new focus on thematic priorities and on developing large, integrated UNIDO support programmes. The revised guidelines will also introduce an upstream programme clearance function by the Management Control Meeting, streamline some procedures found to be too cumbersome, and strengthen the functions of substantive project managers in mobilizing inputs required for project implementation.

Impact of reform on UNIDO services

25. The ultimate purpose of UNIDO reform in all its dimensions, from substantive focusing through administrative streamlining, has been to enhance the relevance and improve the quality of the services of the Organization to developing countries and economies in transition.

26. The increased quality of UNIDO project development work as a result of reforms is clearly reflected in recent project approval figures: the ratio of projects approved/cleared by the Programme and Project Review Committee went up from 64 per cent in 1994 to 84 per cent in 1995. At the same time, out of those projects submitted for donor funding, 75 per cent were accepted in 1994 as compared to only 52 per cent in 1993 (figures for 1995 are not yet available but are expected to be similar to those of 1994).

27. UNIDO has started to put the defined focus into effect and is moving from dispersed smaller projects towards integrated support programmes in priority areas. A number of implementation mechanisms have been devised and will be applied as of the beginning of 1996 to ensure strict adherence to the new substantive focus. In this, the revised procedures for project cycle management, including strict project screening and approval mechanisms, will play a key role.

28. The reform of UNIDO has had an impact on the various types of services provided by the Organization, including the programming support (which has been made more coherent than before), research services (which now clearly support the global forum function of the Organization), industrial information services (which now concentrate on local capacity-building for the benefit of small and medium enterprises), promotional and networking services (which have become more targeted and seek to synchronize investment and technology promotion), as well as normative services (which have been given a higher profile primarily through the recognized contributions by UNIDO to United Nations system-wide endeavours).

29. The overall patterns of UNIDO technical cooperation services have been subject to significant changes. In terms of sources of funds, there has been a virtual breakaway of traditional project funding through the United Nations Development Programme (UNDP). Other conspicuous trends include the significant increase of projects funded through other international funds and institutions (for example, the Montreal Protocol and the World Bank) as well as the reduced share accounted for by self-financed trust funds - the latter as a result of a more rigorous screening process applied by UNIDO.

30. The available factual evidence further demonstrates that, in a number of dimensions, the reform process has already generated clear results, despite the fact that the full impact of newly focused programme development efforts will become visible only in the next biennium. When comparing the present to the previous biennium, the technical cooperation services of the Organization have become more strongly concentrated on African countries, are characterized by a higher share of large-scale projects, reflect the growing importance of the private sector in terms of project beneficiaries and project counterparts, increasingly involve inter-agency cooperation within the United Nations system, and have been able to mobilize innovative sources of funds. Furthermore, a programmatic approach in developing UNIDO services is increasingly being applied as specifically illustrated in the report by five newly developed high-impact integrated programmes.

31. The erosion of the "captive market" in the form of central UNDP funding of projects has brought about a higher degree of competition and has necessitated, as mentioned above, the tapping of new sources of funds, a changed role of UNIDO field representation with a view to identifying and further contacting new clients and counterparts, and in particular enhanced efforts to publicize and raise awareness about the role of UNIDO and sharpen its profile and image. The endeavours of UNDP to embark on direct execution and outsourcing of development cooperation projects have also led to increased coordination requirements, particularly at the field level, in order to avoid duplication and ensure effective use of the comparative advantages of specialized institutions, such as UNIDO.

Outlook and timetable for further implementation

32. After having set in motion the basic reform processes, an acceleration of further activities and the application of initiated measures took place during the most recent months. Together with a team of external consultants, some 150 UNIDO staff organized in 10 Activity Groups undertook the task of defining the required measures in consultation with the staff at large. The results of this interactive process in areas such as administrative procedures, project cycle management, elaboration of high-impact integrated programmes, and introduction and application of new management principles are described in detail in the progress report.

33. In the last few months, the application of reform measures and the prioritization of programmes were applied in the elaboration of preliminary expenditure plans as necessitated by the announcement of partial payment of assessed contributions by the major contributor for the 1996-1997 regular budget. In these plans for non-staff and staff expenditure reductions, the results of the reform process have been utilized, in particular in terms of rationalizing administrative and support activities. The merging of two divisions with other divisions, the discontinuation of a programme and drastic suspensions of staff in administrative and support functions were conceived on the basis of the results of the reform work. The same applies to the more far-reaching contingency plans that have been prepared by UNIDO for the eventuality of future non-payment of assessed contributions by the major contributor.

34. The full implementation of some of the new approaches and processes and in particular staff training in their effective application will extend into 1996. Specifically, the following tasks remain to be completed:

(a) Application of implementation mechanisms to ensure adherence to the new thematic focus, stimulate the development of cross-organizational programmes and enable consolidated reporting on achievements (March 1996);

(b) Formulation and issuance of Director-General Bulletins establishing procedures for, and specifying the application of, basic management principles in different work areas (April 1996);

(c) Formulation of revised project cycle management procedures, including coverage of the post-approval stage, viz. implementation, monitoring and evaluation (January 1996);

(d) Revision of terms of reference for UNIDO Country Directors (UCDs), Area Programme officers and project managers ("backstopping officers") to reflect new functions and division of labour (March 1996);

(e) Harmonization of procedures and simplification of accounting procedures for UCD offices and Investment Promotion Service offices (March 1996);

(f) Formulation of new MIS strategy and policies (June 1996);

(g) Introduction of internal cost accounting system allowing comparison between costs incurred and income earned at the Programme level (April 1996);

(h) Complete overhaul of personnel policies and procedures, with particular attention to recruitment, accountability, and staff rewards and career development (May 1996);

(i) Training of managers and staff at large to be able to apply new principles and procedures of work, and to support the transition to new organizational

structures and more focused work and delivery of services (June 1996).

Downscaling in accordance with expenditure and contingency plans

35. The financial uncertainty faced by the Organization in 1995 and in the 1996-1997 biennium, due to the expected partial or non-payment of assessed contributions by the major contributor, prompted UNIDO to carry out and plan for further drastic reductions in regular budget expenditures. In the last quarter of 1995, drastic measures were applied to reduce expenditures. Supported by far-reaching reforms in administrative and support processes, these resulted in savings in the amount of $7.6 million. In addition, freezing of recruitment and non-extension of short-term contracts of staff has been introduced.

36. At the resumed fourteenth session of the Industrial Development Board on 31 October 1995, Member States were provided with detailed plans of expenditure reductions for the 1996-1997 biennium under different scenarios of cash availability. By applying the results emerging from the UNIDO reform process - the sharpening of the focus of UNIDO substantive services, the streamlining of procedures and project cycle management, and the rationalization of various administrative and support functions - the principles and direction of the expenditure reductions were determined. In the event of a total shortfall of $52 million in the 1996-1997 biennium, the elaborated contingency plan will be applied.

37. The principles embodied in both the expenditure and contingency plans entail the reduction of administrative and other non-substantive expenditures while maintaining as much as possible the capacity of substantive programmes. To this end, the organizational structure would be changed with a reduction by two divisions through mergers and maintaining only six instead of the current eight Managing Director posts.

38. Major Programme 400 (Mobilization and Management of Financial Resources) has been subject to major expenditure reductions and is merged with the - also reduced - Major Programme 300 (Country Strategy and Programme Development). This means first, that the two major functions of these divisions, i.e. programming and financial resource mobilization, will be combined. Funds mobilization will thus be undertaken in each of the regional programmes supported and coordinated by a separate focal point. The staff of field representation will report directly to the respective regional programmes with the overall coordinating function attached to the Office of the Managing Director.

39. The merger of the significantly reduced Major Programme 1000 (Operational Support Services) with the (reduced) Major Programme 1200 (Administration), implies firstly that part of the functions of Project Personnel and Fellowship (1020) and of Purchase and Contracts (1030) be moved into the Division of Administration. Part of these functions will, however, be transferred to the various substantive divisions according to the revised and simplified project cycle management procedures.

40. All in all, the expenditure reduction foreseen for the 1996-1997 biennium will be made possible through accelerated reform and the new organizational structure emanating from this process. Revised terms of reference and work programmes for each major programme will have to be elaborated, taking into account further focusing of the Organization and the envisaged reduction in staff and non-staff resources for the 1996-1997 biennium. The resulting new organizational structure and levels of resources and staff are shown below. Further progress in implementing the functional and staff changes will be reported as appropriate.

41. In conclusion, UNIDO has gone through a significant transformation with the following major changes now in place or ready for application.

- A flatter organizational structure;
- A further reduction in the number of divisions;
- Staff and non-staff expenditure reductions.

Reductions in established budgetary posts			
	Professionals	General Service	Total
Programme and budgets, 1992-1993	499	818	1,317
Programme and budgets, 1994-1995	448	768	1,216
Draft programme and budgets, 1996-1997 a/	402	670	1,072
Expenditure reduction plans, 1996-1997	363	595	958
Contingency plans, 1996-1997	338	501	839

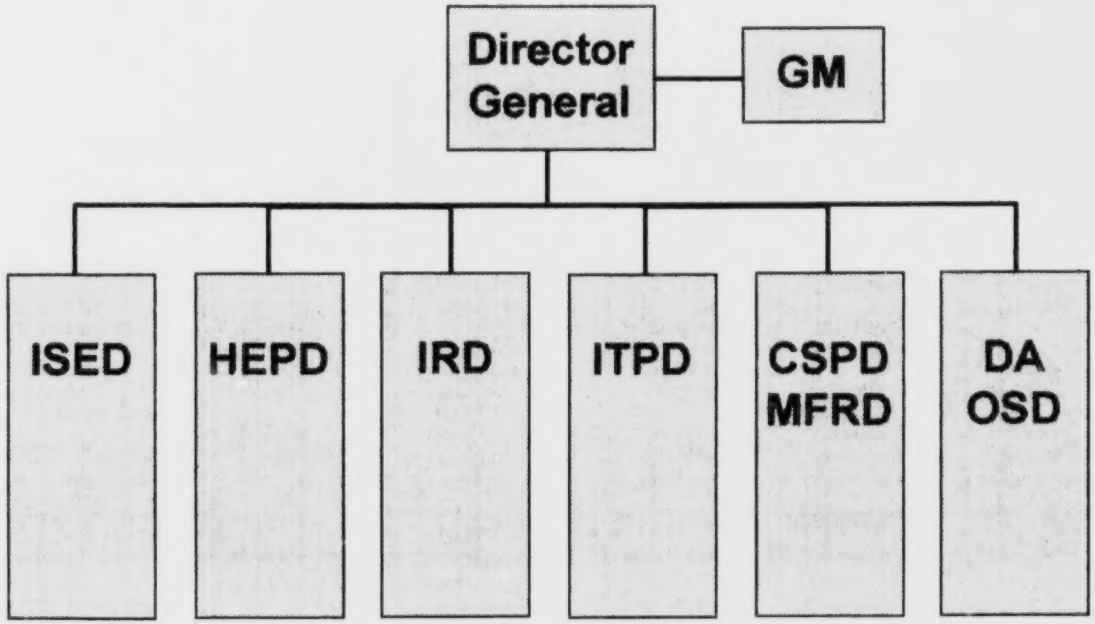
a/ The reduction in the draft programme and budgets, 1996-1997, includes 49 Professional-level and 79 General Service-level posts relating to Language and Documentation Services, which were transferred to UNOV in 1995.

- Reorientation of services in terms of clients, substantive content, and level of intervention;
- Focusing of substantive work and technical cooperation services;
- Introduction of thematic approach of work across divisional structure;
- More effective delivery of higher quality services;
- Improved administrative and management processes and procedures, including personnel policy;
- Additional functions and responsibilities being allocated to field representation.

42. Taking into account UNIDO's present and expected future availability of resources and the Organization's resulting capacities and capabilities, an additional degree of substantive focusing will have to be introduced in terms of suspending some of the current activities. The Organization's programmes will be adjusted accordingly.

43. In conclusion, it can be stated that the reform of UNIDO has proceeded as envisaged in two main phases. In the first phase up to mid-1995, fundamental reforms were undertaken leading to a more relevant, focused, efficient and effective Organization. As of June 1995, a consolidation of the reform process has taken place, with particular emphasis on a streamlined management structure, re-engineered administrative processes and the introduction of additional criteria for further substantive focusing. At the same time, it has been possible to instil in the Organization a spirit and an openness towards change which will remain a characteristic of the future work of the Organization.

New Organizational Structure



UNIDO

1996-1997 CONTINGENCY PLANS
Estimated resource requirements - Regular budget (net) and Operational budget

General Management	Country Strategies, Programme Development and Resource Mobilization	Information and Research	Human Resources, Enterprise and Private Sector Development	Industrial Sectors and Environment	Investment and Technology Promotion	Administration and Operational Support	Joint and Common Programmes
$10,001,500	$28,794,200	$14,050,400	$13,116,900	$22,938,700	$13,283,900	$35,398,800	$39,896,800
• Office of Director-General • Management Coordination and Monitoring • Internal Audit • Legal Services • Strategic Planning Office • External Relations • Secretariat of Policy-making Organs	• Office of Managing Director • Integration of Women in Industrial Development • Least Developed Countries • Africa Bureau • Arab Bureau • Asia & Pacific Bureau • Europe and NIS Bureau • Latin America and the Caribbean Bureau • Programme Support and Monitoring (incl. PPRC Secretariat and focal point for funds mobilization) • Quality Assurance and Evaluation • Field Representation	• Office of Managing Director • Industrial Information • Industrial Statistics • Studies and Research • Public Information and Information Products	• Office of Managing Director • Human Resource Development • Enterprise Development and Restructuring • Small and Medium Enterprises • Industrial Policies and Private Sector Development	• Office of Managing Director • Agro-based Industries • Chemical Industries • Engineering and Metallurgical Industries • Environment and Energy	• Office of Managing Director (incl. ECDC/TCDC) • Investment Services • Technology Services	• Office of Managing Director • Project Personnel and Fellowships • Purchase and Contracts • Financial Services • Personnel Services • Management Information Services • General Services	• Policy-making Organs (IDB,PBC,GC.) • Regular Programme of Technical Cooperation • Supplementary Activities for the IDDA • Interregional Advisers (3 Profs.) • Buildings Management and other Joint Services (3 Profs., 10 GS) - only 21.6% share for UNIDO)
- 24 Profs. - 26 GS	- 73 Profs. - 84 GS	- 36 Profs. - 38 GS	- 42 Profs - 26 GS	- 71 Profs - 52 GS	- 40 Profs. - 29 GS	- 46 Profs. - 145 GS	

Total Resource Requirements: $177,481,200 (of which $150,489,200 is regular budget and $26,992,000 is operational budget)

Established posts: 338 Professionals
501 General Service

I. REORIENTATION OF UNIDO

A. Responding to changing demand patterns

44. The process of reforming UNIDO, as initiated by the Director-General in mid-1993, started with an in-depth assessment of changing trends and patterns of demand for UNIDO services. From the outset, the task was to ensure that the reformed UNIDO would be well equipped to respond to the evolving challenges of industrial development and related international cooperation as faced by the global community towards the end of the twentieth century. The aim was to ensure continued relevance and a sharper focus for UNIDO as an international organization supporting the endeavours of developing countries to achieve sustainable development.

45. An analytical assessment was thus undertaken of: (a) recent and prospective industrial trends and their impact on development cooperation requirements; (b) key cross-country issues providing a focus for the future core services of UNIDO; and (c) broad implications for the future strategy of the Organization and a conducive internal structure. This demand analysis was carried out at the level of the major developing regions from which a consolidated demand assessment was subsequently derived.

46. The regional demand assessments showed significant deviations in economic and industrial performance between Africa, Asia and the Pacific, the Arab region, Latin America and the Caribbean, and the economies in transition in Europe and the Newly Independent States of the former Soviet Union (NIS). Accordingly, they revealed different accentuation of demand for UNIDO services depending, *inter alia*, upon the availability of natural, human and financial resources; the level of technological and institutional development; the progress achieved in the transition to deregulated market economies; and the degree of integration into the global economy.

47. These analyses revealed a number of themes to which industrial decision makers across the various developing regions accord priority in enhancing industrial development and for which UNIDO support is being sought. These common themes were:

(a) Commitment to maintaining or creating an enabling policy and institutional environment for sustained industrial development and international competitiveness;

(b) Broad emphasis on the private sector as the main agent of industrial development and, in that context, on the promotion of foreign investment and technology to complement domestic resources;

(c) Concentrated efforts to develop the technology and information systems needed for knowledge-based industrial development;

(d) Stress on the critical role of human resource development for industrial growth and competitiveness and on the building up of efficient industrial support services;

(e) Enhanced recognition of the developmental role of small and medium enterprises, both as agents of employment creation, rural industrialization and poverty alleviation and in their function of creating efficient, interlinked industrial systems;

(f) Promotion of regional decentralization of industrial development with a view to reducing income disparities and overcoming infrastructural constraints in core regions;

(g) Renewed emphasis on subregional and regional industrial integration, with special emphasis on industry-related investment and technology issues;

(h) General awareness of the need to ensure long-term environmental sustainability of industrial development.

48. It also clearly emerged from the demand analysis that: (a) UNIDO field offices would need to be strengthened to be able to respond directly to requests for information and advisory services from an increasingly diversified clientele and (b) a strong trend existed to call upon UNIDO for the provision of integrated services with a tangible impact on local capacity-building. The challenge for UNIDO was thus to create the capacity and capability to provide solutions to critical industrial development issues, primarily at the subsectoral level, through a combination of analytical and policy advisory services, technical cooperation and investment and technology promotion.

49. The initial demand assessment established the conceptual foundation for the process of reviewing the priorities and internal structure of UNIDO. A number of conclusions were drawn for different dimensions of the reform process that were subsequently addressed in terms of organizational streamlining, the reorientation and focusing of existing programmes, the introduction of new priority programmes and a stronger emphasis on team-building.

B. Setting priorities

50. In elaborating the future role of the Organization and adjusting its priorities to present realities, UNIDO determined the contribution of industrialization - and in turn its own support function - within the context of five overall development objectives. These five objectives: (a) provide a conceptual basis for the grouping of present and future services in various areas of demand; (b) establish a framework for assessing the impact of UNIDO activities; and (c) strengthen the link with relevant development programmes of other United Nations system and bilateral agencies as well as with the endeavours of recipient countries themselves. The five development objectives are elaborated in detail in document GC.5/23. They comprise:

(a) Industrial and technological growth and competitiveness;

(b) Development of human resources for industry;

(c) Equitable development through industrial development;

(d) Environmentally sustainable industrial development;

(e) International cooperation in industrial investment and technology.

51. The framework provided by these five development objectives was subsequently applied in defining the thrust of the future activities of UNIDO. To this effect, the new draft medium-term plan 1996-2001 (IDB.13/19) establishes the basic compatibility between the previous medium-term plan priority areas and the new development objectives and elaborates the services to be provided by the Organization under each objective. In line with the obvious need for UNIDO to respond more swiftly to changing support requirements in an environment of rapid, market-driven industrial development, it was proposed in Board decision IDB.14/Dec.15 that the medium-term plan period be shortened to four years in the future.

52. The setting of priorities, as initiated with the elaboration of overall objectives and related services, was carried on in 1994 and 1995 through an explicit focusing of UNIDO activities in terms of three key dimensions: thematic, geographical and sectoral. The specific results of this process are presented in chapter II of this report.

C. Organizational restructuring

53. Based on the in-depth analysis of changing demand patterns and the identification of core functions and services, and with a view to streamlining the previous top-heavy structure and achieving cost reductions, the organizational structure of UNIDO was reformed at the beginning of 1994, following the endorsement obtained by the General Conference of the proposals of the Director-General. The salient features of this reorganization were:

(a) Reduction of decision-making levels and flattening of hierarchical structures, *inter alia* through abolishing the five posts of Deputy Director-General;

(b) Adoption of a structure based on a total of eight divisions and allocation of resources to priority activities;

(c) Consolidation of information, statistics, studies and research activities as well as of funds mobilization activities in one division each;

(d) A strengthening of internal oversight functions by creating a management coordination and monitoring unit in the Office of the Director-General;

(e) Creation of a number of new substantive units specifically responding to priority areas of revealed demand from developing countries; new Branches have been established to respond to the evolving challenges of environmental sustainability (ISED/ENV, closely linked to the subsectoral expertise of the Organization), private sector development (HEPD/ISP), industrial human resource development (HEPD/HRD) and small and medium enterprise promotion (HEPD/SME);

(f) Transfer of some functions to other Vienna-based organizations: responsibility for the provision of language and documentation services was transferred to UNOV, and MIS facilities management and applications support services to IAEA.

54. In the proposal for the 1996-1997 programme and budgets, minor adjustments to the new organizational structure have been put forward to Member States. More far-reaching adjustments have been proposed as a result of the acceleration of the reform process and the expected shortfalls in payments of assessed contributions. In document IDB.14/29, the Director-General has submitted to Member States expenditure reduction plans that focus on reducing administrative costs, general operating costs and other non-staff costs. Yet, the suspension of a

total of 114 posts (39 in the Professional and higher categories and 75 in the General Service category) have proven to be unavoidable. While basically maintaining the delivery capacity of the Organization's implementing divisions, the plans foresee the merger of functions of the various supporting divisions. This applies, on the one hand, to the Country Strategy and Programme Development Division and the Division for the Mobilization and Management of Financial Resources, and on the other hand, to the Operational Support Division and the Division of Administration. The expenditure reduction plans are thus fully in line with the main thrust of the ongoing reform process. At the same time, such drastic expenditure cuts create additional burdens and adjustment pressures at a time when the Organization is called upon and ready to go ahead with delivering priority services under its newly defined substantive focus.

D. Rational division of labour within the United Nations system

55. The entire United Nations system is currently engaged in a thorough reform process in which a greater impact and sharper focus of programmes as well as an effective response to the challenge of dwindling financial resources - in terms of both regular budgets and voluntary contributions - are major issues.

56. One essential dimension of this reform process is the division of labour between the various programmes, funds and agencies of the United Nations system and, in particular, their operational relationship with the Bretton Woods institutions. It is imperative - especially in times of serious financial constraints - for each organization to clearly define its programme focus and area of expertise with a view to enhancing the degree of specialization of each actor in the United Nations system.

57. Development assistance in general - and a subject as broad as international cooperation in economic development in particular - require renewed efforts at effective coordination. The ultimate objective of attaining a sustainable impact on economic and social development processes will not be met unless the various agencies involved - first and foremost those within the United Nations system - share their specialized expertise and knowledge and provide coordinated and coherent support to recipient countries.

58. In many areas of UNIDO services, coordination with other United Nations agencies is essential and is actively sought so as to benefit from complementarities and synergy effects. This is particularly called for by the programme approach for operational activities of the United Nations system which advocates integrated support to broader government programmes.

59. Examples of recent cooperative efforts between UNIDO and other United Nations agencies are given in paragraphs 237 to 243 below.

II. FOCUSING OF SERVICES

60. The present chapter reviews the results of the process of focusing, reorienting and improving UNIDO services in their various dimensions. Section A reports on overall progress in establishing criteria for narrowing the scope and range of UNIDO activities while sections B through F review more specifically the impact of the reform process on various types of UNIDO services. Finally, section G reports on the changing role and functions of the field representation of the Organization.

A. Dimensions of focus

1. General approach

61. The present section recapitulates the approach taken by UNIDO in defining a clear substantive focus for the future orientation and services of the Organization. The point of departure has been the Constitution of UNIDO, which entrusts the Organization with the broad mandate to promote and accelerate industrial development and to promote industrial cooperation (Article 1). With a view to specifying this overall mandate, translating it into a set of globally accepted overall objectives and ensuring a target orientation of the UNIDO programmes, five development objectives have been identified as a long-term conceptual framework guiding UNIDO activities (see para. 50 above). Thus, these five objectives by their very nature provide an orientation and a yardstick - yet not by themselves a focus - for action.

62. In addressing the five development objectives, UNIDO performs two basic functions under both of which it emphasizes the creation of industrial partnerships and networks.

(i) **A forum function**

to serve as a global forum to exchange information, analyses and experience on industrial development; support the development and implementation of international agreements, codes and norms related to industry; and generate comparable industrial statistics and standards;

(ii) **A service function**

to provide integrated services to Governments, institutions and enterprises in developing countries and countries in transition including for the design and implementation of industrial policies, the development of selected industrial subsectors, private sector development, the development and transfer of clean technologies, industrial partnerships and investments, and the development of human resources.

63. In the past, the forum function of UNIDO did not receive sufficient attention; it has been defined in the reform process as one of the two pillars of the Organization (see also chapter II.F below). While the service function remains of equal importance, it has been subjected to a rigorous focusing as elaborated below.

64. UNIDO has adopted a medium-term focus in two dimensions: geographical and sectoral. This medium-term focus has been complemented, with a specific orientation towards the 1996-1997 biennium, by a thematic focus dimension, as concretized in the seven thematic priorities.

65. The thematic focus of the Organization, as defined in detail in section 4 below, will thus be subjected to a thorough reassessment at the end of each biennium with a view to adjusting it regularly to the changing priorities and support requirements of Member States. This in turn will feed into the adjustment of the medium-term plan of the Organization which - in its proposed shortened coverage of a four-year period - will be more closely related to biennial priorities. Depending on the future budgetary framework of UNIDO, a further degree of focusing may have to be introduced within the core programmes foreseen to be implemented in the next biennium.

66. Figure 1 provides a synopsis of this iterative process of focusing the services of the Organization, the dimensions of which are elaborated in greater detail below.

2. Geographical focus

67. UNIDO is responding - in accordance with the principle of universality - to industrial development needs and support requirements in all developing regions and in the economies in transition. While thus providing a forum for issues of global concern, the special focus of UNIDO technical cooperation are the countries in Africa and the least developed countries (LDCs), the majority of which are to be found in that region. These countries are far behind the rest of the developing world in terms of economic and industrial development. Unless strong international support is provided to complement their domestic efforts, the development gap will continue to widen.

68. This focus has been reaffirmed by the Yaoundé Declaration (GC.5/Res.20) which, *inter alia*, calls upon UNIDO to:

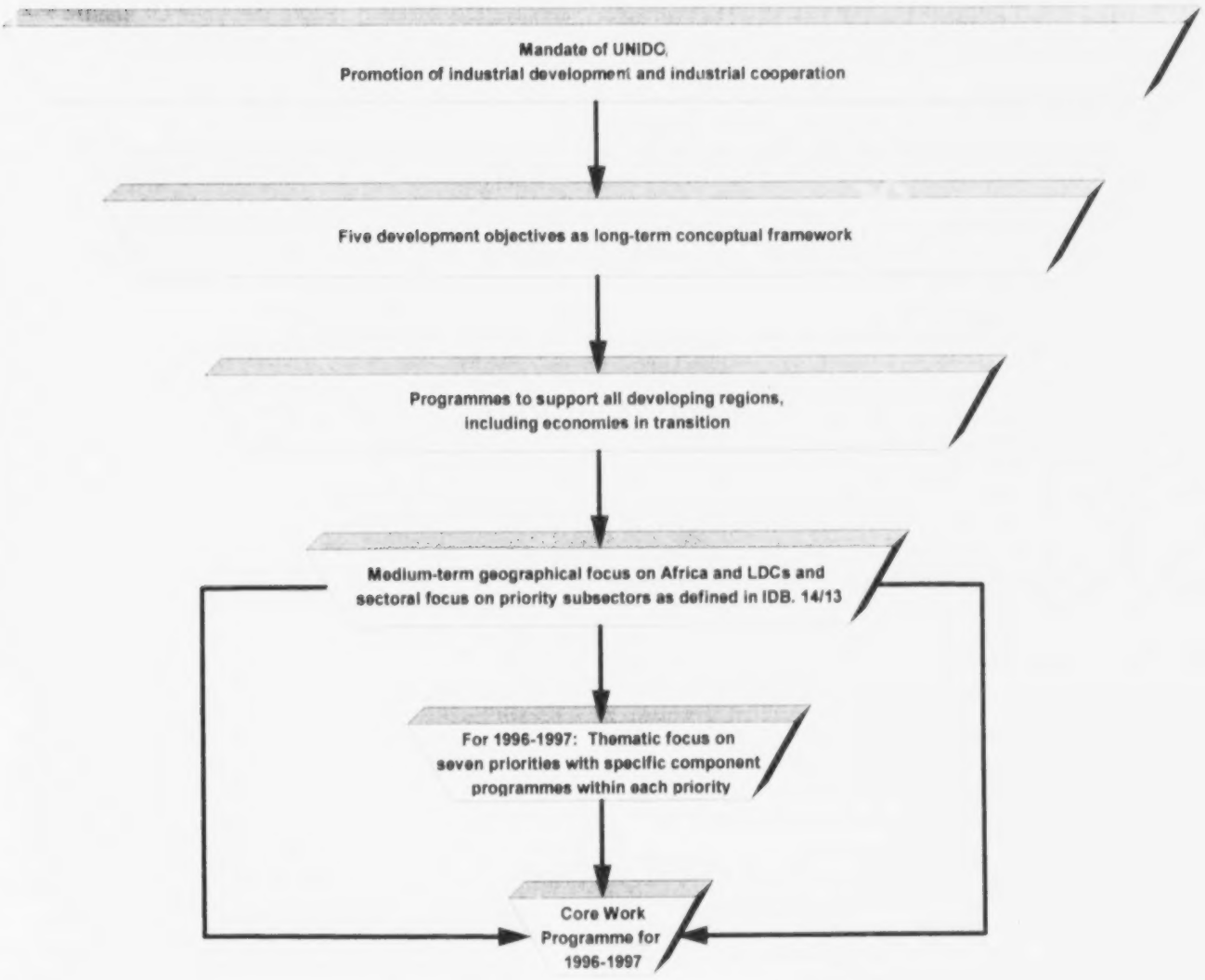

Mandate of UNIDO:
Promotion of industrial development and industrial cooperation
Five development objectives as long-term conceptual framework
Programmes to support all developing regions,
including economies in transition
Medium-term geographical focus on Africa and LDCs and
sectoral focus on priority subsectors as defined in IDB. 14/13
For 1996-1997: Thematic focus on
seven priorities with specific component
programmes within each priority
Core Work
Programme for
1996-1997

Figure 1. The process of focusing UNIDO services

(a) Give special attention to the industrialization of the least developed countries, which face particular constraints in their resources and infrastructure;

(b) Accord high priority to the industrialization of Africa and to the realization of the objectives of the Second Industrial Development Decade for Africa (IDDA).

69. The Africa Programme of UNIDO has recently intensified programme development endeavours for the region through a series of interdisciplinary programme review missions to African countries (14 in 1994). The requirements for UNIDO support as identified during these missions are being followed up throughout the Organization in the various substantive programmes concerned, partly drawing on funds available under IDDA. In 1994, the share of African countries and LDCs in the total technical cooperation delivery of UNIDO at the regional and country level stood at more than 40 per cent. Proactive efforts will be made to further increase this share in the next biennium, *inter alia*, on the basis of extrabudgetary resources expected to be forthcoming from donor countries.

3. Sectoral focus

70. UNIDO has undertaken a targeted effort to narrow down its subsectoral coverage so as to ensure a critical mass of Headquarters expertise and available technical staff in fewer, selected high-priority subsectors. However, in doing so, it must be kept in mind, that:

(i) UNIDO needs to maintain the capacity and capability to respond to assistance requests in different industrial subsectors, the development of which is often highly interlinked and interdependent;

(ii) UNIDO needs to address a number of horizontal industrial issues - such as environmental pollution, energy saving, waste management, or human resource development - which may call for application in a variety of different subsectors.

71. With these caveats, the Organization has defined its subsectoral focus (for details, see document IDB.14/13, annex), based on the International Standard Industrial Classification (ISIC). The aggregate results of this exercise are reproduced in table 1 below. Further focusing may be undertaken, as appropriate, based on experience gained with the selected focus.

72. It emerges from table 1 that only some 40 per cent of all subsectors of industry are accorded high priority status. While UNIDO was covering virtually all 77 industrial subsectors in the past in a non-prioritized manner, 32 subsectors are now the target for priority attention. On these, UNIDO concentrates the build-up of core staff expertise and the proactive programming of its support services.

73. Within these high priority subsectors, the prominent role played by agro-based industries is evident from the fact that these account for more than 50 per cent of the total (17 out of 32). This is fully consistent with the thematic priorities which, *inter alia*, emphasize the linking of agriculture and industry as well as rural industrial development.

74. Within the three sectoral branches of the Organization, in addition to environment-related work, the following subsectors of industry will be of highest priority in the future:

(i) Food processing, leather, textiles and wood-processing within agro-based industries;

(ii) Metalworking and machine tools (with special emphasis on agricultural machinery) within engineering industries;

(iii) Biotechnology, water management, medicinal plants, building materials and organic chemicals within chemicals industries.

75. The above implies a significant degree of subsectoral specialization. A large number of industrial subsectors have been assigned low priority while others have been classified as non-priority subsectors without specific coverage by UNIDO.

4. Thematic focus

76. In the proposals of the Director-General for the programme and budgets, 1996-1997 (IDB.14/2 and Corr.1), the structural approach and presentation of the approved programmes and budgets, 1994-1995, have been maintained. Thus, the activities planned for the biennium and the resources allocated for their implementation are grouped by organizational units. This approach allows direct budgetary monitoring and control of implementation. There is also a built-in degree of flexibility reflecting the non-predictability in many cases of precise outputs; this applies above all to technical cooperation activities.

77. In addition, the Director-General has proposed seven thematic priorities as cross-organization focus for the 1996-1997 biennium. These priorities respond to identified demand for integrated, multidisciplinary services and draw on the core expertise of the

Table 1. Subsectoral focus of UNIDO

Sectors	Category			
	High priority	Low priority	No coverage	Total
Agro-based industries	17	8	6	31
Chemical industries	9	8	3	20
Engineering and metallurgical industries	6	14	6	26
TOTAL	32	30	15	77

Organization. They will provide the overall direction towards which all substantive units of UNIDO will shift their programming, conceptual and subsequent implementation work. The seven thematic priorities were first presented in document IDB.14/13 and comprise:

Theme 1: Strategies, policies and institution-building for global economic integration;

Theme 2: Environment and energy;

Theme 3: Small and medium enterprises: policies, networking and basic technical support;

Theme 4: Innovation, productivity and quality for international competitiveness;

Theme 5: Industrial information, investment and technology promotion;

Theme 6: Rural industrial development;

Theme 7: Africa and least developed countries: linking industry and agriculture.

78. While the first six priorities are global in coverage, i.e. addressing the needs of all developing regions, the last one adds a specific focus on agro-industrial linkages in the case of Africa and LDCs, thus reinforcing the geographical focus of UNIDO.

79. The seven priorities are fully consistent with the five overall development objectives (see paras. 50-51), which they further substantiate and concretize; they also reflect a number of areas that UNIDO has been mandated to address by its policy-making organs, including, above all, environment and energy (GC.5/Res.6; IDB.13/Dec.7), development and transfer of technology (GC.5/Res.3; IDB.13/Dec.4), industrial investment promotion (GC.5/Res.7; IDB.13/Dec.8), small and medium industries (GC.5/Res.5; IDB.13/Dec.6) and private sector development (IDB.13/Dec.15).

80. A number of "horizontal" priority programmes of UNIDO, such as human resource development, private sector development, economic and technical cooperation among developing countries (ECDC/TCDC) and the integration of women are not explicitly included among the seven thematic priorities. This in no way detracts from their importance. Rather, they permeate all seven priorities and will be oriented in their activities towards specifically supporting each of the[m].

81. Account should be taken of the fact that UNIDO offers a number of support services that cannot be fully linked to the seven thematic priorities. These services - such as research and statistics and certain technical functions - not only provide the Organization with tools and data for the priority programmes but also result in self-contained products such as the global, sectoral and country-level analytical reports. They may also be provided in response to *ad hoc* demands from Member States. The same applies to post-emergency assistance and stand-alone activities that may result from the need to respond flexibly to unforeseen, and thus unprogrammed, demands from Member States. Resources that might be required for such "other" activities outside the seven thematic priorities are expected to amount to some 20 per cent of the total budgetary and extrabudgetary resources.

82. UNIDO has operationalized each of the seven thematic priorities in terms of: (a) the key issues faced by developing countries; (b) the expertise available at UNIDO; (c) the programmatic focus for the 1996-1997 biennium; and (d) the required cross-organizational cooperation. A brief synopsis presented in the following pages shows the main areas of focus that will be translated into concrete programmes and projects targeted towards specific subregions and countries.

Thematic priority 1: Strategies, policies and institution-building for global economic integration

Key industrial development issues for developing countries

- To strengthen institutional capabilities for industrial policy-making and implementation
- To enhance the participation of the private sector in industrial policy dialogues
- To reap full benefits from global trade liberalization
- To invigorate subregional industrial cooperation arrangements

UNIDO support

Component programme	Focus in 1996-1997
Industrial strategy and policy advice	- Integrated advisory services for industrial policy formulation and competitive enterprise strategies - Advisory services on industrial development strategies for less advanced regions within countries (see also thematic priority 6) - Support to interactive strategy and policy formulation systems with participation of Government and private sector, including NGOs - Information, training and awareness creation on policies for building up an enabling environment for private-sector development, investment, competitiveness, employment creation and optimal location of industry
Advisory and institutional support services addressing industrial implications of global and regional economic agreements	- Analysis of implications of GATT Trade Accord for export-intensive industrial subsectors; support to industrial restructuring programmes - Advice on mechanisms for enterprise-level cooperation within regional agreements - Support to harmonization of industrial and technological policies as well as industrial and environmental standards within regional agreements

Thematic priority 2: Environment and energy

Key industrial development issues for developing countries

- To ensure protection/conservation of environmental resources through cost-effective pollution prevention/control (clean production)
- To meet obligations under global environmental treaties
- To remain competitive despite increasing international environmental norms and standards

UNIDO support

Component programme	Focus in 1996-1997
Environmentally sustainable industrial development (ESID) strategies	- Training workshops on industrial dimensions of national sustainable development strategies - Capacity-building for ESID policy implementation - Analyses/advice on applying market-based instruments - Area-wide environmental quality management - Mobilization of financial support for national Agenda 21 implementation
Clean and safe production	- National Cleaner Production Centre programme - full operation of eight existing centres - establishment of new centres - Programmes for specific subsectors of industry - Special initiatives - reducing mercury pollution in mineral-processing - industrial water management - waste minimization and recovery - risk reduction for toxic chemicals
Implementation of international protocols, agreements and conventions	- Implementation of Montreal Protocol projects - increasing emphasis on SME and low ozone-depleting substances-consuming countries - United Nations Framework Convention on Climate Change - impact assessment on industrial development patterns and national stocktaking of emissions - technologies for use of renewable energy - energy-efficiency in industrial processes
Industry-related environmental norms and standards	- Eco-labelling schemes in leather products - Development of similar programme for the textiles industry

Thematic priority 3: Small and medium enterprises: Policies, networking and basic technical support

Key industrial development issues for developing countries

- To support small and medium enterprises (SMEs) in seizing business opportunities emerging from expanding markets and new technologies
- To establish a conducive policy framework and enabling environment
- To increase efficiency of institutional support systems
- To promote linkages (horizontally and vertically) of SMEs with business partners

UNIDO support

Component programme	Focus in 1996-1997
Policy analysis and advice	- Support in SME strategy/policy formulation - Improvements in regulatory environment - Strengthening of information systems to support SMEs - Development of policy implementation mechanisms through involvement of private sector
SME support systems and institutions	- Strengthening of support institutions and promotion of networking between them - Enhancing national consultancy capacities for SME business management - Supporting business incubation schemes for entrepreneurship development - Promotion of women entrepreneurs
Networking of SMEs	- Promotion of industrial subcontracting and partnerships, with emphasis on subregional and regional networks - Promotion of subsectoral clusters of SMEs

In addition, the technical cooperation services of UNIDO in the various subsectors defined as future focus (see paragraphs 71-74 above) will be rendered in the vast majority of cases to SMEs.

Thematic priority 4: Innovation, productivity and quality for international competitiveness

Key industrial development issues for developing countries

- To introduce modern management techniques
- To enable enterprises to introduce technological innovations and make strategic choices based on up-to-date and comprehensive information
- To create sustainable employment in productive activities
- To build up core competencies to ensure competitiveness, including adherence to international norms and standards
- To adjust to and thrive in the global market and in an open trade system

UNIDO support

Component programme	Focus in 1996-1997
Enterprise restructuring and privatization	- Enterprise-level restructuring and privatization primarily through work with industrial institutions - Policy and institutional issues of restructuring and privatization - Environmental and social dimensions of restructuring and privatization
Research and development for industrial innovation	- Technological innovation management in industrial enterprises - Establishment of international/regional R and D centres in specialized technology areas
Quality management	- Support in the accreditation and certification of ISO 9000 and preparing for the introduction of ISO 14000 series - Support to SMEs in production control and product design

Thematic priority 5: Industrial information, investment and technology promotion

Key industrial development issues for developing countries

- To promote global industrial partnerships, *inter alia*, through increased inflows of foreign investment and technology
- To build up/strengthen industrial information systems
- To improve negotiation skills for investment and technology agreements
- To enhance South-South cooperation

UNIDO support

Component programme	Focus in 1996-1997
Technological and investment information	- Building up sustainable national information networks (capacity-building) - Integrating all UNIDO information services and offering them on-line - Improving information on clean technologies and coverage of environmental dimension in industrial statistics - Technology Monitors on emerging technologies
Investment promotion	- Investment forums with emphasis on - SME investment partnerships - specific regions (within countries) and specific subsectors - ECDC dimension - Expansion of Investment Promotion Service offices network to cover developing countries and countries in transition - Training of local investment project sponsors - Strengthening of World Investment Network Services (WINS) and linking with UNIDO information services
Technology promotion	- Capacity-building in technology transfer negotiations - Techmarts with emphasis on link to investment promotion and enhanced follow-up services - Capacity-building in build-operate-transfer arrangements through training based on UNIDO guidelines

Thematic priority 6: Rural industrial development

Key industrial development issues for developing countries

- To ensure a more equitable socio-economic development within countries by supporting regional development, particularly in rural areas, through industrial development
- To prevent migration from rural to urban areas
- To improve food supply, thus reducing malnutrition
- To increase local value-added and provide industrial inputs through processing of natural resources

UNIDO support

Component programme	Focus in 1996-1997
Regional development	- Policy and institutional support to the development of disadvantaged regions to exploit their industrial potential and create employment - Support to and promotion of linkages between small rural industries
Agro-processing	- Private sector agro-industrial development in illicit drugs producing areas - Development of animal protein resources - Training of women in food processing - Hides and skins improvement schemes - Integrated programmes for efficient and sustainable manufacturing of wood products - Development of structural design codes for timber - Productivity and quality improvements in the garment industry - Pollution control in dyeing and finishing of textile products
Building materials and low-cost housing	- Promotion and dissemination of labour-intensive, well-tested technologies for the production of selected building materials - Development of construction systems and design elements for low-cost housing that can survive catastrophes - R and D for improved technologies for the use of sisal in roofing - Integration of rural building materials industries with other mineral-using industries

Thematic priority 7: Africa and LDCs: Linking industry with agriculture

Key industrial development issues for developing countries

- To increase agricultural value added and productivity and promote food safety through agro-industrial linkages;
- To reduce dependence on imported food products and agro-related equipment through building up local production capacities;
- To provide required institutional support to agro-based and agro-related industries.

UNIDO support

Component programme	Focus in 1996-1997
Agro-processing	- Enhanced value added in agricultural production in order to offset long-term declining processes - Improving food safety in dairy, fish and meat products through quality approach - Industrial processing of local crops, with emphasis on low-cost nutritionally enriched foods - Enhancing efficiency in fish processing and valorization of by-products - Institution-building support to the sugar industry - Integrated wood products manufacturing programmes - Training in woodworking tool maintenance and in production of modular wooden bridges - Hides and skins, leather and leather products improvement schemes - Upgrading leather products manufacturing and exports; special emphasis on women entrepreneurs - Enhancing competitiveness of textiles and garments industry, *inter alia*, by upgrading design and quality of traditional textile products manufactured by women - Processing of medicinal and aromatic plants and other non-wood forest products
Agricultural equipment	- Support to agro-related metalworking and agricultural machinery industries, particularly in rural areas - Promotion of private sector investment in agro-related support industries and services (e.g. maintenance)
Chemical industrial inputs to agriculture	- Risk reduction in agro-chemicals development - Seed dressing and post-harvest treatment in support of small- and medium-scale farmers

5. Further criteria

83. The above three main dimensions of focus - geographical, sectoral and thematic - provide a clear framework and direction for the specialization of services provided by UNIDO. Concomitantly, UNIDO has identified a number of further criteria for defining activity areas which are de-emphasized. They imply:

(i) A focus on the manufacturing sector and manufacturing-related services, de-emphasizing areas such as mining, utilities and transportation unless directly connected with manufacturing activities and with environmental and energy-related issues;

(ii) A focus on developing the private sector and working with private sector counterparts, de-emphasizing support to public manufacturing enterprises (unless linked to their restructuring and/or privatization) and de-emphasizing support to institutions without outreach to the private sector;

(iii) A focus on large, integrated technical cooperation programmes and projects, de-emphasizing small projects unless of a strategic/seed nature or related to trouble-shooting services in response to urgent *ad hoc* request (see also chapter III.C below on project cycle management);

(iv) A focus on upstream support to policy-makers and, above all, industry-related institutions, de-emphasizing activities benefiting single enterprises (with the exception of Montreal Protocol projects and a limited number of self-financed trust fund projects); groups and clusters of enterprises will be primarily supported by working through institutions and associations;

(v) De-emphasis of a number of activity areas and approaches that have proven to have low impact or no longer respond to present realities; these include: industrial master plans, multi-country investment forums, supply-driven group training programmes, pilot/demonstration projects with insufficient long-term counterpart commitments and stand-alone meetings, including consultation meetings. Likewise, ECDC/ TCDC projects will be integrated into core UNIDO activities, such as investment and technology promotion, and no longer be pursued as stand-alone activities.

6. Implementation mechanisms

84. The focus defined by the seven thematic priorities and the core programmes within each of them will be strictly adhered to by the Organization in the next biennium. To this end, a number of implementation mechanisms have been devised and will be applied at the beginning of 1996 (in this context, see also the section on project cycle management reform in paras. 203-217). UNIDO will thus move away from disbursed services and smaller unrelated projects towards integrated programmes within approved priority areas. This process has already begun, as for instance demonstrated by the development of high-impact integrated programmes that are presented in section C.2 below.

85. First, the seven thematic priorities will be the foundation for the proactive programming of technical cooperation and other services and will become the key dimension of the screening process (see also figure 2). Specific programmes to be pursued under each of them will be developed by interdivisional teams on the basis of concept papers that have been prepared by one of the activity groups under the accelerated reform process. These programmes will be subject to an upstream review and clearance by the Management Control Meeting.

86. Secondly, the Programme and Project Review Committee, in approving individual programmes and projects for implementation, will base its decisions on the compliance with the thematic, subsectoral and geographical focus - with exceptions requiring special justifications.

87. Thirdly, the freely programmable technical cooperation resources of UNIDO will be geared towards the defined focus. This applies in particular to seed money from the Regular Programme of Technical Cooperation (RPTC) (including its IDDA component) and the Industrial Development Fund (IDF) general-purpose convertible contributions. It is planned to modify the present RPTC allocation approach (resources allocated to implementing divisions) and instead allocate resources to each of the seven thematic priorities, with particular emphasis on interdivisional teams.

88. Finally, it is intended that in future bienniums, the programme performance report will report on the actual substantive achievements under each of the seven priorities, including contributions made by different organizational units, actual regular budget/operational budget resources used for, and technical cooperation expenditures incurred under as well as outside, the seven priorities.

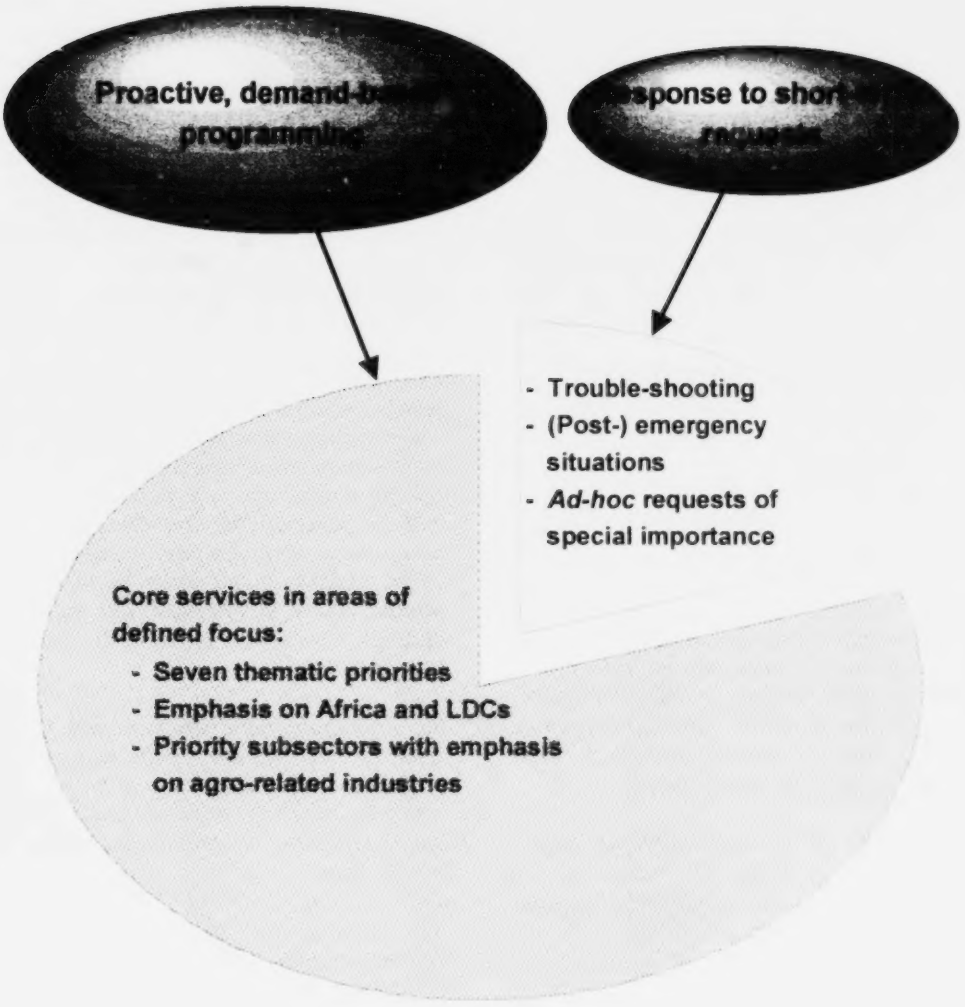

Proactive, demand-
programming
sponse to short
- Trouble-shooting
- (Post-) emergency situations
- *Ad-hoc* requests of special importance
Core services in areas of defined focus:
- Seven thematic priorities
- Emphasis on Africa and LDCs
- Priority subsectors with emphasis on agro-related industries

Figure 2. UNIDO services

89. The full operationalization of the seven programmatic themes can only be achieved with strong financial support from Member States, both directly through pledges to IDF, as well as indirectly through other development financing sources (UNDP, World Bank, European Union, etc.). This would reinforce programmes and projects in agreed areas of concentration and allow the development of high-priority integrated programmes.

90. On its part, UNIDO will take action to ensure that staff development and training resources - which in the 1996-1997 programme and budgets have been largely decentralized - will be utilized to build up expertise in accordance with the proposed priorities.

B. Basic support services

91. A number of basic support services are required to establish an analytical and conceptual framework for assessing and developing the operational activities of the Organization. This relates primarily to programming support on the one hand, and research support on the other. In both fields, UNIDO has significantly changed its approaches as a result of the reform process.

Programming support

92. At the outset of the reform process, UNIDO has undertaken great efforts to elaborate a coherent programming framework for its support services, which was not previously available in a systematic manner. This programming framework - as outlined in Director-General's Bulletin UNIDO/DG/B.177 - comprises:

(a) Country programming briefs: these have been prepared as a basic information tool for the great majority of recipient countries;

(b) UNIDO country support strategies: these analyse the industrial development strategy and policies of a given country, identify key development constraints, and elaborate a focused UNIDO support programme. UNIDO has either issued or finalized drafts of a total of 27 country support strategies, more than 50 per cent of them covering African countries. Apart from guiding UNIDO programmes, they have been used both as an instrument to mobilize funds and to link with related activities of other multilateral and bilateral donor agencies, and as the UNIDO input into the overall United Nations Country Strategy Note process launched in 1992. It bears mention in this context that the progress made by UNIDO in elaborating country support strategies compares favourably with the implementation status of United Nations Country Strategy Notes: since 1992, a total of 14 such Notes have been prepared and another 7 are available in draft;

(c) Thematic and subsectoral programming frameworks: these have been elaborated and published in the UNIDO Service Handbook, which is widely disseminated as a tool to raise awareness about the expertise and capabilities of UNIDO.

93. In addition, UNIDO has prepared internal regional strategy papers guiding the activities of the Organization in each of the developing regions.

Research support

94. Before the reform, the profile of UNIDO in industry-related research and analyses was relatively low. With the new emphasis placed by the reform on the role of UNIDO as a global forum for exchanging experience and concepts of industrial development, the research function has received heightened attention.

95. Following the reform, a significant part of UNIDO research activities has been internalized and is now carried out as an integral dimension of the work of various substantive organizational units. Thus, for instance, the Environment and Energy Branch has undertaken action-oriented research on issues such as water consumption patterns and eco-labelling; the Small and Medium Enterprises (SME) Branch has set up a global research network on issues relevant to SME development; and the impact and implications of new technologies and their transfer to developing countries are being analysed by the Technology Service.

96. Reflecting the concern of UNIDO with the overall relationship between industrialization and broader development objectives, and with a view to providing both a global platform for relevant debates and an analytical basis for operational activities, general research support is provided by the Studies and Research Branch. Its main publication, the *Industrial Development Global Report 1995*, has been newly designed, streamlined, reduced in scope and focused on analyses aimed at assisting Governments in shaping industrial restructuring strategies in response to rapidly changing global economic trends. It continues to provide statistical information on some 185 developed and developing countries, focusing on key industrial indicators. The *Report* is now issued in three languages (English, French and Spanish) and co-published by commercial publishers, thus targeting a wider readership and generating income for the Organization. A Survey of Selected World Industries is published as a separate report.

97. Addressing the dearth of industry-specific country-level analyses, UNIDO has intensified its efforts to become a focal point for the dissemination of such information to the international industrial community,

specifically targeting the private sector and potential investors. The decision of a renowned business publisher to co-publish the UNIDO *Industrial Development Reviews* bears testimony to the fact that UNIDO can capitalize on its comparative advantage in preparing such analytical reports. They are widely used by the global industrial community, particularly by potential investors and, in this context, the UNIDO investment promotion programme.

98. Pursuant to the redefined priorities of the new UNIDO, the information and analyses contained in the UNIDO *Industrial Development Reviews* have been adjusted to reflect the new thematic focus of the Organization more closely. Between January 1994 and mid-1995 the *Industrial Development Reviews* of Egypt, India, the Islamic Republic of Iran and Mexico were prepared for co-publishing as sales publications for world-wide dissemination. In the context of the re-established priority programmes, the information and analyses concentrated on industrial strategies, policies, and institution-building for global integration; environmental issues; the role of small- and medium-scale industries; innovation and productivity; technology promotion; and rural industrialization. The *Reviews* also provide in-depth analyses of investment and trade prospects for highly disaggregated manufacturing subsectors.

99. A novel development has been the presentation of these *Reviews* at seminars and forums organized by Governments and private sector organizations with a view to introducing the *Reviews* to potential investors and the industrial community. Such presentations in Egypt and India won extensive press coverage and contributed to the image-building of the Organization.

100. With regard to the non-sales publications of the *Review Series*, the focus is now clearly on Africa and the least developed countries with a view to identifying industrial opportunities and crucial areas requiring external technical cooperation inputs in major manufacturing subsectors. In addition to the *Industrial Development Reviews* of Lao People's Democratic Republic and Namibia, prepared between January 1994 and mid-1995, *Reviews* of Ethiopia, Eritrea, Kenya and Uganda were prepared for presentation at a UNIDO Investment Forum held in Uganda in November 1995.

101. At the request of developed and developing countries, UNIDO will provide periodic comparative surveys on industrial policy and other issues, thus providing information to Governments and private sector institutions on recent policy and institutional developments in areas such as investment promotion, employment creation, SME development, research and development (R and D), human resource development and environmental protection.

C. Technical Cooperation Services

1. Changing patterns

102. After a prolonged period of significant decreases in the level of the technical cooperation activities, the current year has seen a clear trend reversal. In March 1995, the annual project allotment document (PAD) level reached $118 million, representing an increase by 11 per cent as compared with March 1994; it has since maintained its growth trend. Technical cooperation delivery figures have turned around somewhat later with an increase recorded again in September 1995 (5 per cent up compared to September 1994).

103. The profile of UNIDO technical cooperation services has undergone significant changes since the beginning of the reform process. Key data reflecting these changes are presented in the present section. While progress in a number of dimensions can already be demonstrated and measured, it needs to be borne in mind that recent project approvals continue to be influenced to a significant extent by pre-reform project development work. The full impact of the new operational focus on programme and project implementation is yet to be observed in the next biennium.

Sources of funds distribution

104. At the outset, it is important to note that - in continuation of a longer process - the share of newly approved technical cooperation activities funded centrally by UNDP has further decreased drastically: from 1992-1993 to 1994-1995 (data included until August 1995), it went down from 33 per cent to 13 per cent (see table 2 below). This implies a virtual breakaway of the traditional mainstay of project funding, a situation that is forcing UNIDO to identify new and innovative sources of funds (for a brief review of related efforts, see section 3 below).

105. One such new source has clearly been the Montreal Protocol, which in the 1994-1995 biennium accounted for one third of new approvals and has become one of the most visible signs of the Organization's enhanced emphasis on environmental support services and the recognition of its unique expertise in highly specialized industrial technologies. Overall, the share in total technical cooperation approvals of projects addressing environmental issues increased from previous much lower levels to 30 per cent in 1994 and 46 per cent in 1995 (in value terms).

106. Another clear trend to be observed in the funding pattern is the reduced share of trust funds. This is entirely due to the downscaling self-financed trust fund projects. Indeed, since the inception of the reform

Table 2. Technical Cooperation: approval values by sources of funds
(Based on PADs issued)

Source of funding	1992-1993 (Per cent)	1994-1995[a] (Per cent)
UNDP	33	13
SIS	4	5
Regular budget	9	13
IDF	34	23[b]
Montreal Protocol	1	33
Trust funds thereof self-financed	13 (6)	8 (1)
TSS-1/TSS-2	4	4
Other	2	1
TOTAL	100	100

[a] Until August 1995.

[b] Given usual approval patterns, this share is expected to be significantly higher based on projected year-end figures for 1995.

Table 3. Technical Cooperation: Approval values by size of projects
(Based on PADs issued)

Size of projects	1992-1993 (Per cent)	1994-1995[a] (Per cent)
Small[b]	27.6	26.2
Medium[c]	42.4	36.5
Large[d]	30.0	37.3
TOTAL	100	100

[a] Until August 1995.

[b] Below $150,000.

[c] From $150,000 to $500,000.

[d] Above $500,000.

process, UNIDO has terminated a number of self-financed trust fund projects that benefited single enterprises and were found to have limited overall developmental impact. At the same time, the Organization has adopted a cautious approach in newly approving such projects and has subjected them to a rigorous screening process. New formulas have been developed, however, particularly with Latin American countries that point to promising approaches for UNIDO to work with regional and sectoral organizations both in the public and the private sector.

Project size

107. In terms of the size distribution of technical cooperation activities, it emerges from table 3 above that the share accounted for by large projects (with a budget above $500,000) has increased from 30 per cent to more than 37 per cent. At the other end of the size spectrum, the number of small-scale projects (with a budget below $150,000) has decreased from 28 per cent to 26 per cent of the total. On average, the size of UNIDO technical cooperation projects increased significantly from $137,000 in 1992 to $182,000 in 1995. While this constitutes a noticeable improvement, UNIDO will in the future further de-emphasize small-scale projects and focus on the active development of larger technical cooperation programmes under the new thematic priorities of the Organization.

Geographical distribution

108. Recent trends in the geographical distribution of technical cooperation services are reflected in table 4 below. They demonstrate that Africa - in accordance with the focus defined in the Yaoundé Declaration - has clearly become the largest recipient region, increasing its share from 36 per cent in the previous biennium to 40 per cent in 1994-1995.

109. While this increase is to some extent due to a number of large Montreal Protocol projects in African Arab States, the increased emphasis on Africa is also borne out by technical cooperation data excluding Montreal Protocol projects. On this basis, the share of the African region stagnated from 1993 to 1994 at below 30 per cent, yet surged up in 1995 to 45 per cent.

Private sector involvement

110. The growing importance of the private sector as main agent of industrial development had been identified at the beginning of the reform process as one of the strongest trends to which a renewed UNIDO would have to respond. UNIDO has endeavoured therefore, to ensure not only that its services ultimately benefit the private sector - which applies to the great majority of technical cooperation projects - but also to involve private sector entities, above all private sector insti-

Table 4. Technical cooperation: Approval by geographical region [a]
(Based on PADs issued)

Region	1992-1993 (Per cent)	1994-1995[b] (Per cent)
Africa	36.0	39.8
Asia and the Pacific	41.6	30.6
Latin America and the Caribbean	11.5	9.8
Europe and NIS	6.1	9.4
Arab States	11.1	28.1
(African Arab States)[c]	(6.2)	(17.6)
TOTAL Total value	100 $115.51 million	100 $109.21 million

[a] Excluding global and interregional projects.

[b] Until August 1995.

[c] Deducted from "Total" as already included under "Africa".

tutions and associations, more directly as project counterparts.

111. An internal in-depth review of all technical cooperation projects launched since 1992 (based on values of PADs issued) confirms a strong upward trend: from 1992 to 1995 (figures until end of August), the importance of the private sector as project beneficiary rose from 67 to 78 per cent while the role of private entities as project counterparts almost doubled from 28 to 53 per cent (figure 3).

112. The fact that UNIDO is increasingly working in support of the private sector and actively promotes the latter's lead role in industrial development has a number of implications. First, it broadens the range of UNIDO counterparts and leads to direct interaction with industry and industrial associations. Thus, enhanced staff involvement is needed - as compared to traditional "backstopping" - to cater for a variety of innovative implementation arrangements. Secondly, the services demanded from UNIDO have become more specific and sophisticated: up-to-date expertise is needed to advise, for instance on competitive and clean technologies and on quality management. As a consequence, UNIDO staff has to be highly specialized and must command direct industry-level experience so as to be able to compete in a market-driven environment calling for rapid responses.

Inter-agency cooperation

113. UNIDO has intensified its efforts to work together with other development agencies - primarily those within the United Nations system - to ensure, where appropriate, joint consolidated responses to industrial development issues. These endeavours have addressed both Headquarters cooperation agreements and concrete project-level cooperation of which illustrative examples are presented below.

114. In the case of the UNDP, beyond the continuous coordination of work at the field level, cooperation involved the creation of a joint UNDP/UNIDO task force that began to define selected priority fields for future joint programme initiatives. These related in particular to global environmental issues, entrepreneurship development and post-emergency assistance. Consultations also took place with the Office for Project Services on options for enhanced cooperation following its establishment as a separate entity under the name United Nations Office for Project Services (UNOPS). The Organization signed an agreement with the United Nations Educational, Scientific and Cultural Organization (UNESCO), in which areas of cooperation were identified in human resource development, science and technology, and strengthening of industry-university links. In this context, an industry-university programme on market-oriented technology development and business incubators will start soon with funding from the Russian Federation. Similarly, UNIDO and the Food and Agricultural Organization of the United Nations (FAO) initiated the formulation of agro-industry projects related to food security in Africa, to be the subject of joint funds mobilization and implementation. An agreement was signed with the United Nations International Drug Control Programme (UNDCP) to expand the ongoing co-operation on crop diversification through agro-industry projects.

115. At the project level, the following illustrative examples of cooperation can be quoted:

(a) Together with the United Nations Children's Fund (UNICEF), UNIDO is developing a programme to assist the cereal-processing industry in Bosnia Herzegovina with special emphasis on issues related to food quality;

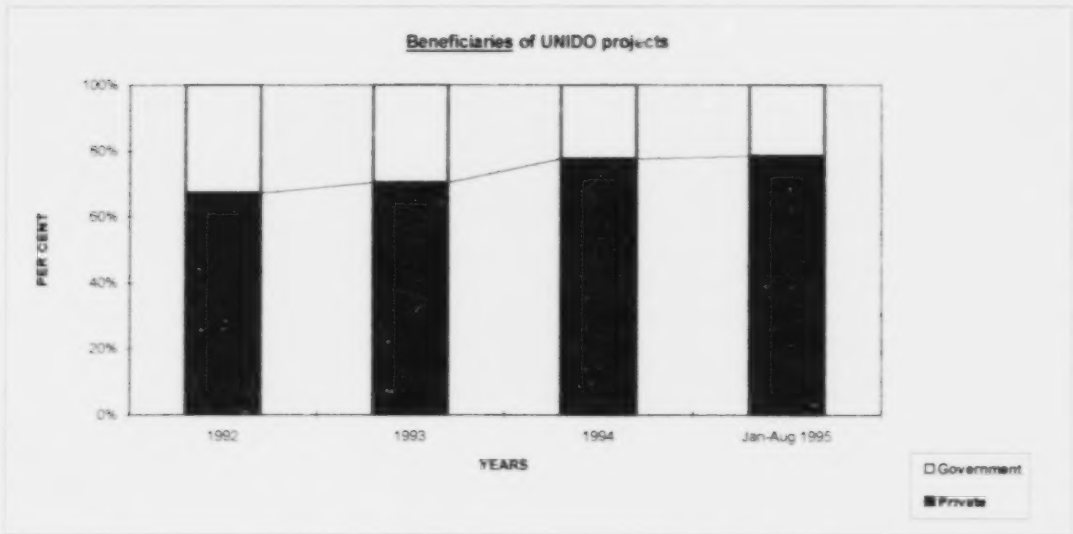
(b) Action-oriented research is carried out jointly with the United Nations Conference on Trade and Development (UNCTAD) to assess the implications for developing countries of the Uruguay Round Agreements;

(c) Together with FAO - and with the envisaged future involvement also of the International Trade Centre (ITC)/UNCTAD/GATT - UNIDO has initiated the development of integrated programmes for sustainable wood-product manufacturing in Ecuador, Ghana and Nicaragua. The full-scale technical co-operation projects resulting from this initiative will involve FAO on forest management and UNIDO on wood-processing activities;

(d) In Sierra Leone, UNIDO is involved as subcontractor in a larger ITC project on investment and export development with UNIDO implementing the investment promotion component;

(e) UNIDO has become a member of the United Nations Children's Vaccine Initiative (CVI), of which WHO, the World Bank, UNDP, UNICEF, and the Rockefeller Foundation are founding members. In close cooperation with WHO and financed by UNDP, UNIDO will hold a series of workshops in 1996 on industry-related health issues focusing on vaccine production management and quality assurance and control;

(f) UNIDO, together with FAO and the Organisation of Economic Cooperation and Development (OECD), has now also joined as a member the Inter-organizational Programme on Sound Management of



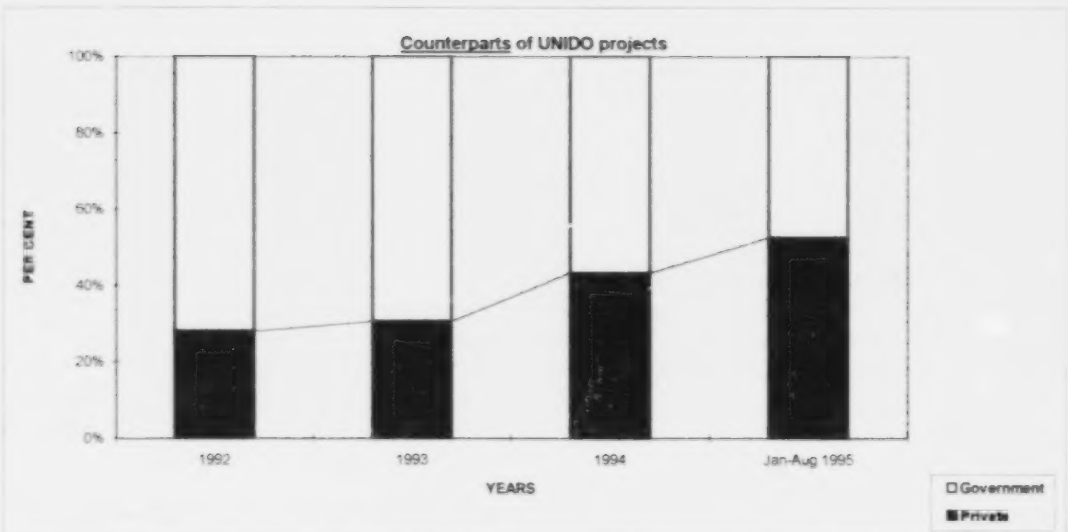


Figure 3. UNIDO working with the private sector

Chemicals (IOMC), which has been called upon by the Intergovernmental Forum on Chemical Safety to prepare an inventory on activities related to chemical safety. UNIDO is actively participating in this work and has a portfolio of 20 ongoing projects in this field;

(g) Also in the context of industrial inputs into health programmes, UNIDO cooperates with WHO, the World Bank and UNICEF in assisting China in its programme to control and eliminate iodine deficiency disorders;

(h) Within a larger technical cooperation project of the International Atomic Energy Agency (IAEA) on the development of advanced flue gas clean up processes in Poland, UNIDO is responsible to undertake project management for engineering design.

116. In addition, UNIDO has carried out a large number of multi-agency technical support services at the programme level (TSS-1) together with FAO, ILO, UNESCO and the Department for Development Support and Management Services of the United Nations Secretariat (DDSMS), which have been of an upstream nature and have resulted in programme development for possible joint implementation.

2. Development of high-impact integrated programmes

117. In the context of the accelerated reform process, UNIDO has developed a limited number of high-impact integrated programmes that illustrate and substantiate the type of services that UNIDO will develop and implement. Five such integrated programmes were selected, as a first stage, from a large number of proposals generated by the UNIDO technical divisions. They are, *inter alia*, based on the following criteria:

(a) To focus on and specify support services under the seven thematic priorities;

(b) To integrate analytical work, policy advice and institutional support;

(c) To put into effect the comparative advantages of UNIDO in the United Nations system;

(d) To enable and foster cross-divisional teamwork within UNIDO;

(e) To involve the private sector both as beneficiary and as counterpart;

(f) To respond to expressed priority demand of Member States.

118. Resources from the UNIDO regular budget were made available to undertake needs assessments in potential recipient countries so as to ensure their participatory involvement in programme development. The final programme documents are being submitted to the international donor community. Below, the five integrated programmes are briefly presented.

(1) Integrated advisory services for industrial policy formulation and competitive enterprise strategies

119. The key feature of the programme lies in its integration of industrial policy advice to Governments with support in the formulation of competitive strategies and business plans at the industry level, primarily in the private sector. The interactive combination of these two elements represents an innovative approach by which UNIDO can offer a unique and unbiased service.

120. This integrated programme, which is based largely on the experience of developing a medium-term trade and industry strategy for Viet Nam, combines analytical and normative work, policy advice and technical co-operation at the level of industrial subsectors. A wide array of in-house expertise is involved ranging from industrial statistics to feasibility studies and investment promotion. Policy aspects in turn have a bearing on the competitiveness of industry which can be monitored through the *CompStrat* system developed by UNIDO. *CompStrat* is a package of software-cum-training services to simulate changing business factors and their effect on the overall competitiveness of an enterprise, thus facilitating the formulation of business strategies. UNIDO assistance is aimed at business associations which, in turn, can provide consulting services to industry through application of the system.

121. The programme, which can be applied to African and less developed Asian and Latin American countries, relates directly to the UNIDO thematic priority "Strategies, policies and institution building for global economic integration". It reflects the impact of the reform process in particular, by responding to a new demand for services from a group of countries in the process of transforming their economic and industrial system. It is characterized by a strong reliance on UNIDO core competence based on interdivisional teamwork.

(2) Global network for the promotion of competitive and innovative SMEs

122. The programme is based on a concept that merges the SME competence of UNIDO, the donor country and selected developing countries in order to devise and implement appropriate strategies geared at improving the

performance and the capabilities of selected SME clusters in both urban and rural areas. In this framework, the objective of the programme is to assist in the development of efficient systems of support services that will give SMEs improved access to knowledge and skills, to facilitate forward and backward linkages in domestic and foreign markets and to improve their overall competitive position.

123. At the core of the programme will be a network of SME institutions and experts from both developing and industrialized countries. UNIDO acts as an intermediary to facilitate the requisite information exchange and technical cooperation through, e.g., technology transfer and institutional twinning arrangements. A UNIDO interdivisional working group on SMEs develops an integrated support package covering industrial policy advice, information systems, appropriate technologies, marketing, human resource development and investment promotion. While clearly being in line with the UNIDO thematic priority 3 on SME, the programme will also contribute to innovation, productivity and quality as well as to rural industrial development.

(3) The UNIDO quality programme: an application to the food-processing sector of seven sub-Saharan African countries

124. Concentrating on seven African countries, this programme aims to build up local capacity to assist enterprises in the continuous improvement of food quality in the non-vegetable food sectors, such as dairy, fish and meat products. To this end, policy advice will be provided to Governments in the establishment or revision of regulations and standards for the selected food products. At a second level, local institutions will be supported in the implementation of an integrated approach comprising the establishment of standards, quality control and quality assurance procedures, low-cost automation and productivity improvement, modern management techniques and basic laboratory testing. Through these institutions, enterprises will be supported in each country through the introduction of the quality approach designed to render industrial operations more productive.

125. The programme - which operates in an integrated manner, at the policy, institutional and enterprise level - carries a clear focus related to thematic priority 4 "Innovation, productivity and quality for international competitiveness". In targeting food safety in Africa, it will also be a key activity under thematic priority 7. At UNIDO, it is supported by an interdivisional team of professionals contributing expertise in quality management, industrial operations and modern management techniques.

(4) Introducing new technologies for the abatement of global mercury pollution

126. In response to the global environmental threat caused by mercury contamination, UNIDO has developed a programme to promote more efficient processing methods that displace amalgamation as the method of choice of small-scale miners, a great number of them being women, children and members of ethnic minorities. Although the problem is not new, the immediate need for international cooperation in tackling this problem was recognized only recently. The environmental aspect of the programme together with the production of appropriate technology either by the workers themselves or fabricated at low cost by modest facilities in the developing countries implies a clear thematic focus on priority theme 2 "Environment and Energy".

127. Providing support to ministries, geological survey services and provincial or district administrative offices and liaising with minority communities, the programme includes elements of normative (legislative) work, policy advice, institution building and technical cooperation, the latter aiming at the replacement of outdated technology through environmentally friendly and appropriate technology. As such, the programme carries a high degree of integration and underlines the distinctive capacity of UNIDO to put together multidivisional teams ready to provide a variety of interrelated expertise in mineral processing, manufacturing and environmental protection as well as the integration of women into industrial development. The programme, which is unique in the United Nations system, is based on successful UNIDO projects, *inter alia*, in Niger, Viet Nam and Venezuela.

(5) A UNIDO programme for women entrepreneurship

128. In the wake of the Fourth World Conference on Women at Beijing in September 1995, the programme reflects the responsibility of UNIDO to support the efforts of Governments and local institutions in developing countries to strengthen their own capacity and capability in the field of women's entrepreneurship in industry. The programme concentrates on the African countries and the LDCs.

129. One of the main objectives of the programme is to help women to run competitive businesses. This is being achieved through strengthening managerial and technical training facilities for women in specific sectors of industry, while providing access to credit, technology and information services. Given the generic nature of the programme, it bears the possibility of tailoring it to a selected subsector of a country, following an in-depth

needs assessment and encompassing a fully participatory approach. As an interactive component, Governments will receive policy advice towards closing the gender gap created by discriminatory policies, legal systems and socio-cultural practices, thus providing an overall enabling environment for women entrepreneurship and facilitating the mainstreaming of women entrepreneurs in the industrial development process.

130. The programme is distinct in the sense that it combines integrated services comprising policy advice, technology promotion, production management and quality assurance, human resource development and information management, which are being backed up by multidivisional in-house expertise and teamwork. Where necessary, support required from other international cooperation agencies, e.g. in the area of finance, will be secured.

3. New initiatives in funds mobilization

131. Based on the need to diversify beyond traditional sources of funds (see table 2 above that shows the declining role of UNDP financing), UNIDO has undertaken particular efforts to identify innovative sources for technical cooperation funding. This has resulted in an increasing number of programmes and projects financed by other United Nations system organizations and funds as well as in a more programmatic approach towards the conceptualization of technical cooperation services.

Programmatic approach

132. Based on its successful experience with several large-scale inter-country programmes (such as the Regional Africa Leather and Footwear Industry Scheme in Eastern and Southern Africa and the Regional Programme for Industrial Modernization of the Capital Goods Sector in Latin America) and in order to focus its activities on a smaller number of priority areas and thus to achieve a greater impact in recipient countries, UNIDO has directed its efforts in the present biennium to the development of integrated technical cooperation programmes. Programme development has been carried out through upstream activities, supported both by the freely programmable resources of the Organization - and by special-purpose contributions of donors earmarked for preparatory assistance activities or for specific priority areas. In this way, UNIDO concentrates its services in those areas where it has a track record of proven expertise and success.

133. Multi-country programmes have been developed in a number of priority areas, including, *inter alia*, cleaner production centres (a global programme in cooperation with UNEP); tannery effluent treatment in South-East Asia; biomass energy for industrial development in Africa; wood-working industries in Africa and in Latin America and the Caribbean; industry-related issues of sustainable water management (as contribution to a United Nations system-wide water programme); SME development in Africa; training of women entrepreneurs in food-processing industries in Africa; and development of agro-related metalworking industries in Asian and Pacific LDCs.

134. At the same time, the programmatic approach has been applied increasingly also at the country level. One example is UNIDO support to China's Agenda 21 programme where 16 interlinked projects have been developed in consultation with national authorities and submitted to major donors.

135. Another example covers countries in special, post-conflict or post-emergency situations. For these, UNIDO has developed an integrated conceptual approach focusing on the industrial dimensions of rehabilitation and reconstruction in the context of the relief-to-development continuum. Support programmes have been elaborated in the case of Bosnia Herzegovina, Haiti and Palestine and have already partly received donor support. UNIDO has started concrete cooperation in this field with UNDP, which has made a separate allocation in its successor programming arrangements for countries in special situations.

Innovative sources of funds

136. Since the beginning of 1994, a number of initiatives have been undertaken to open up new funding prospects, primarily within the United Nations system, including the World Bank. In addition to the rapidly developing and well-known implementation programme under the Montreal Protocol, this *inter alia*, includes:

(a) Global Environment Facility (GEF). The work of GEF falls into four main areas: prevention of global warming, protection of international waters, preservation of biological diversity, and prevention of further depletion of the ozone layer. UNIDO has three ongoing projects in the areas of biodiversity and climate change, with a total value of $6.7 million. Projects in the pipeline amount to $15 million, essentially in the area of mitigating the results of climate change;

(b) UNICEF. The dialogue established since December 1994 with UNICEF Headquarters has resulted in the identification of two major areas of cooperation, namely, (i) assistance to small salt producers in West Africa in preventing iodine deficiency disorders (IDD), and (ii) Vitamin A fortification of foods. With regard to the first activity, a generic paper providing a conceptualization of the modalities of working with small salt producers in West Africa is being prepared by

UNIDO as a basis for developing tailor-made projects with each of the countries concerned;

(c) United Nations Environment Programme (UNEP). Within the National Cleaner Production Centres (NCPC) programme, UNEP has funded two projects with a value of $1.1 million;

(d) Common Fund for Commodities (CFC). The dialogue established and developed recently with CFC has resulted in the identification of several areas of common interest. Some fourteen proposals are being developed by the technical divisions concerned that focus on the domestic processing of primary products with a view to promoting industrialization and exports and for which joint funding by CFC and other major donors is likely to be obtained. Seed money was secured in July 1995 to facilitate and accelerate the development/formulation before the end of 1995 of priority projects in the areas of tropical timber, cashew apple, sorghum, abaca and aflatoxin level in copra, for a total amount of approximately $6 million. In October 1995, UNIDO was requested by CFC to execute a $5 million project on product and market development for sisal and henequen.

137. Major strides have been made with regard to UNIDO projects financed by the World Bank. Currently, eight such projects are under implementation amounting to $6.6 million. These projects range from an ecologically sustainable industrial development (ESID) programme in Madagascar to private sector industrial skills development in the Philippines and the training of Russian managers in project management. A considerable pipeline has been built up involving some 15 projects on which UNIDO is in negotiations with the World Bank and its borrowers for implementation.

138. Outside the United Nations system, new working relationships have been established with a number of funding institutions. The Organization of the Petroleum Exporting Countries (OPEC) Fund has engaged UNIDO in a project to review a feasibility study, based on the neutral position of the Organization. The first UNIDO project financed by the European Union Assistance for Economic Restructuring in the Countries of Central and Eastern Europe (PHARE) programme was approved in 1994 and will assist in the establishment of an industrial subcontracting and partnership exchange for small and medium enterprises in Slovakia.

D. Promotional and networking services

139. Promotional and networking services are generally gaining importance for UNIDO along with the process of focusing the services of the Organization. To the extent that (i) UNIDO is concentrating on areas of core expertise, (ii) developing countries themselves have built up substantial industrial and technical capabilities, and (iii) the private sector has become the main engine of industrial development, it becomes ever more essential for UNIDO to act as an international forum facilitating and supporting the exchange of information and linking, as a catalyst, industrial partners within and between countries.

140. One key dimension of such networking is the generation, processing and dissemination of industrial information (see section E below). Another one is the promotion of investment and technology flows to developing countries and economies in transition.

141. The UNIDO approach towards the promotion of foreign investment has become increasingly targeted.

(a) First, it now focuses above all on medium-sized and sometimes even small investors who have limited experience and capacity to identify investment opportunities in developing countries. This is reflected in the relatively low amount of investment per project which, in the vast majority of cases, is below a level of $5 million;

(b) Secondly, UNIDO has enhanced its efforts, specifically in Asia, to promote investment flows to particular regions - above all disadvantaged regions - within larger developing countries and thus link them, where possible, to regional and rural development objectives. One concrete example of this orientation refers to China where four distinct regions were targeted, namely North West China, Yingkon, South West China and Jihin Province in North East China; the latter assumed special significance within the multi-country Tumen River Area Development Programme as an integrated strategy for economic cooperation in one of the most remote regions in Asia;

(c) Thirdly, investment forums seek to focus increasingly on specific subsectors of industry;

(d) Fourthly, they pay special attention to the promotion of investment flows between developing countries as a key dimension of South-South cooperation;

(e) Finally, multi-country investment forums, while effective in special cases, are generally being de-emphasized because of their frequently limited impact.

142. The Investment Promotion Service (IPS) office network is gradually expanding into developing countries and countries in transition where new offices will complement the activities of traditional IPS offices in developed countries. Following the opening of a new Investment Promotion Service office at Istanbul, Turkey,

in April 1995, another one is expected to be opened before the end of the year in Bahrain. Negotiations are under way with several further countries including Denmark, Egypt, Mexico, Morocco, Portugal and Tunisia.

143. The Techmart programme of UNIDO, with its emphasis on enterprise-to-enterprise technology partnerships, has also become more targeted and focused. On the one hand, the organization of investment forums and Techmarts is synchronized, where possible, at the country level to result in integrated Intechmarts. As a specific recent example is the Intechmart held in India in March 1995 that has resulted in the conclusion of technology and investment business worth $30 million. On the other hand, Techmarts are increasingly designed to promote the transfer of specific types of technologies, such as environmental and energy-related technologies. For instance, a Techmart on housing is being prepared to take place in Mexico and another one on cleaner production technologies is planned for Portugal.

144. In its networking approach - in particular in research and development and related human resource development - UNIDO is increasingly relying on specialized technology centres established under its aegis. Specifically, this applies to the International Centre for Genetic Engineering and Biotechnology (ICGEB), which became autonomous in February 1994, the Centre for Application of Solar Energy (CASE) as well as the International Centre for Science and High Technology (ISC). By drawing on the services of these centres, staff at Headquarters can focus on coordinating and facilitating functions without being directly involved in the full range of activities carried out in the centres themselves.

145. The UNIDO subcontracting exchanges are another mechanism employed for stimulating industrial partnerships. Some 40 national exchanges have been created; the focus in the next biennium will be on linking them through (sub-) regional exchanges.

E. Industrial information services

146. The dramatic advances in the information industry in recent years, particularly the rapid growth in electronic networking, are revolutionizing access to and delivery of the knowledge resources of the world. Access to networks and to other new information technology products potentially improves the position of developing countries - providing data and information to assist strategic planning, market access and technology acquisition. As an instrument of South-South co-operation, networks may also improve diffusion and effective absorption of internationally available technological and organizational innovations. However, while industrialized countries are increasingly capitalizing on these communications advances, the situation remains unsatisfactory in many developing countries, particularly in LDCs.

147. UNIDO has built up detailed knowledge of industry world-wide by monitoring global economic and technological developments as they unfold and by assessing their quantitative and qualitative impacts on various regions and countries. Similarly, through its technical cooperation activities UNIDO has generated a unique bank of information and expertise on technology transfer in a variety of industrial subsectors. UNIDO also has the single source in the world of general industrial statistics covering all non-OECD countries.

148. The UNIDO reform has drastically changed the nature of industrial information services: concentration is on the critical information needed by SMEs to be competitive, on speed of delivery, on more business- and market-oriented information inquiries, and on a wider use of electronic networks.

149. To better serve the demand for information, particularly for SMEs, a programme has been developed to expand the national focal points into self-sufficient and self-sustainable national industrial technology and market information networks. All existing specialized sources of industrial information in a country are made accessible to users through a one-stop contact point that may be an existing institution (as is the case of the Russian Federation) or may be established as a commercial company (as is the case of Sri Lanka) with stockholders from the private and public sectors.

150. Information support to Techmarts, Investmarts and Intechmarts has been expanded with a wider dissemination of opportunities and a more efficient and effective follow-up with the use of Internet and other networks. The focus is increasingly on specific groups of technologies in line with UNIDO sectoral priorities, including clean technologies.

151. Likewise, the human resource development activities of UNIDO in the field of industrial information have been reoriented away from general issues of information processing towards branch-specific information resource management, particularly through the use of Internet and other networks. In the growing number of training programmes in this field, more extensive use is now made of local expertise with UNIDO providing basic methodological support.

152. Inter-agency cooperation has been strengthened with UNCTAD to use a single electronic format to handle trade, technology and investment information; with the International Labour Organization (ILO) to provide access to the INSTEAD database; with FAO to

exchange information on agro-based industries; with regional organizations such as the African Regional Centre for Technology (ARCT) in Africa and the Asian and Pacific Centre for Transfer of Technology (APCTT) in Asia; and with the International Federation for Information and Documentation to build-up a strategic alliance in information services with non-governmental organizations (NGOs).

F. Contributions to the United Nations system and normative services

153. UNIDO has an important role to play in supporting the development, assessing the implications and assisting in the implementation of international codes, norms, standards and agreements related to industry. Its normative function is thus less related to the setting of norms than to helping developing countries in applying internationally agreed norms. Much of this work takes place within the responsible bodies of the United Nations system.

154. Since the beginning of the reform process, UNIDO has effectively enhanced its position within the United Nations system and has come to be recognized as provider of critical technical expertise in a number of system-wide fields of action. Of these, the promotion of environmentally sustainable development is the area in which the UNIDO contribution to system-wide endeavours and programmes has gained a particularly high profile (for greater details, see document GC.6/28 on which the present section partly draws).

155. UNIDO has become a major implementing agency - alongside the World Bank, UNDP and UNEP - under the Montreal Protocol on Substances that Deplete the Ozone Layer and is widely recognized as having the technological edge in its implementation in different subsectors of industry. As a result, the share of the Organization in overall project implementation under the Montreal Protocol has risen sharply to 25 per cent.

156. Since its restructuring, the Organization has been working to develop its role in the implementation of Agenda 21, as requested by the General Conference in resolution GC.5/Res.6. Therefore, by increasing its involvement in the United Nations system-wide policy dialogue on the follow-up to the United Nations Conference on Environment and Development, the Organization engaged in the policy-level and operational initiatives within the framework of the Inter-Agency Committee on Sustainable Development (IACSD) and the Commission on Sustainable Development (CSD).

157. Meetings of IACSD resulted in the recognition of the potential role of UNIDO in several areas, most notably: education, science and the transfer of environmentally sound technologies, cooperation and capacity-building; chapter 16 of Agenda 21 on environmentally sound management of biotechnology (an area for which UNIDO was designated as Task Manager); environmentally sound management of toxic chemicals and hazardous wastes, including prevention of their illegal international traffic; promoting sustainable human settlement development; and protection of the quality and supply of freshwater resources including the application of integrated approaches to the development, management and use of water resources.

158. An issue that will undoubtedly occupy much attention in the work of the United Nations system as a whole, is trade, environment and sustainable development. The Secretary-General was called upon by CSD to prepare an analytical study on the interrelationships between competitiveness, trade, technology and changing consumption and production patterns. UNIDO is one of the agencies requested to contribute to the study.

159. The energy-related activities of UNIDO constitute a direct response to developing countries efforts to implement the United Nations Framework Convention on Climate Change (UNFCCC). Specifically - in response to the UNIDO statement before the First Conference of the Parties to UNFCCC in early 1995 - UNIDO was requested by the New York Chapter of the Group of 77 to undertake a study on the impact of climate change measures on country-level industrial development patterns. This study has been initiated in 1995 and will be concluded in the course of the next biennium.

160. The Secretariat of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal has accepted a UNIDO proposal to closely link its regional centres with UNIDO cleaner production centres that are foreseen to be established in the Latin America and the Caribbean and in Asia and the Pacific regions. The centres will closely cooperate in training related to the safe use of chemicals in industrial processes.

161. As referred to above, UNIDO is acting as task manager for chapter 16 of Agenda 21 on Environmentally sound management of biotechnology. CSD specifically requested the secretariat of the Commission on Biodiversity to examine the question of biosafety arising from the release of genetically modified organisms. In response, UNIDO has developed - on behalf of the UNIDO/UNEP/WHO/FAO Working Group on Biosafety - a Voluntary Code of Conduct for the Release of Genetically Modified Organisms into the Environment. In the same context, UNIDO has established and now operates the Biosafety Information Network and Advisory Service (BINAS), a service that monitors global developments in biosafety, advises

national authorities on the formulation of biotechnology regulations, and provides information for assessing the safety of biotechnology applications.

162. At its fifty-second session, the United Nations General Assembly will consider the issue of global freshwater resources, and the Subcommittee on Water Resources of the Administrative Committee on Co-ordination (ACC) has been mandated by CSD to prepare a global freshwater assessment for the period up to the year 2025 to facilitate the deliberations of the General Assembly. As reported previously, UNIDO has been requested to develop an assessment of freshwater resource consumption by industry. Utilizing its participation in the ACC Subcommittee, UNIDO is also developing an industry freshwater conservation programme.

163. Following a meeting of the United Nations Statistical Commission in April 1994, UNIDO was designated as the official United Nations depository of industrial statistics for all developing countries and countries in transition. This helps ensure international comparability of industrial data and setting standards for their collection, processing and reporting. Following directly from this new mandate, the Organization prepared the *International Yearbook of Industrial Statistics*. This *Yearbook* replaces the *Industrial Statistics Yearbook* (Volume 1) previously prepared by the United Nations Statistical Office as well as the "Handbook of Industrial Statistics" previously prepared by UNIDO.

164. In addition to the above contributions to the United Nations system-wide initiatives and programmes, the Organization is involved in a number of other activities with a normative dimension - in terms of supporting the development on internationally agreed guidelines in various fields of industrial development. By way of providing illustrative evidence of recent work requested from UNIDO, the following examples can be given.

(a) The Leather and Leather Products Industry Panel (as such representing international industry associations in this sector) has requested UNIDO to develop impartial international technical standards for eco-labelling that are to complement existing national and regional standards;

(b) UNIDO is developing, with strong technical support from Latin American and Caribbean countries, a regional code for the design of timber structures, emulating a similar code developed by the European Union;

(c) The UNIDO methodology for investment project appraisal is internationally recognized and applied, as specified in the Computer Model for Feasibility Analysis and Reporting (COMFAR), a software package developed by UNIDO;

(d) UNIDO has developed a Manual on Technology Transfer Negotiations and related training materials as well as Guidelines on the Development, Contracting and Negotiation of build-operate-transfer (BOT) Projects.

G. Role of field offices

165. From the very outset, one of the important dimensions in the reform process was the intended strengthening of UNIDO field representation. From the assessment of the changing driving forces and policy and institutional environment of industrial development, the need became clear to broaden the field representation of UNIDO and to reorient the functions of UNIDO Country Directors (UCD). This was confirmed through the analysis undertaken by independent consultants at the end of 1994.

166. The Organization needs to be closer to "clients" in order to improve contact and interaction with them and to provide direct advisory services. This need is also reflected in the increased overall emphasis being placed by the United Nations system on decentralization of functions and delegation of authority to field structures, as expressed in General Assembly resolutions 44/211 of 1989 and 47/199 of 1992.

167. At the same time, it became increasingly clear during 1995 that prevailing financial constraints would preclude the option of significantly expanding UNIDO field representation despite the target of 50 UCD offices established earlier by Member States.

168. UNIDO - working within the narrow confines of available finance - thus concentrated on increasing the effectiveness and enhancing the impact of present field offices. This entailed a redefinition of the functions and core activities to be performed by UCDs.

169. As basis for this redefinition, the Memorandum of Understanding between UNIDO and UNDP of April 1989 has been revised and is being renegotiated with UNDP. The present Memorandum reflects a situation in which (a) UNIDO - as other specialized agencies - was a major implementing agency of UNDP-funded technical cooperation, (b) UNDP provided substantial financial support to the UCD programme, and (c) the UNDP Resident Representative also acted as representative of UNIDO in the field. The revised Memorandum, acknowledging the rapidly dwindling technical cooperation funding by UNDP and the phase-out, in 1997, of UNDP sectoral support resources for the UCD programme,

makes the UCD the UNIDO representative and redefines his/her key functions.

170. In general, the new core functions of UCDs shift their centre of activity from project administration towards a more substantive involvement in programme development and the direct provision of certain services to an increasingly diversified clientele. The UCDs now play an enhanced role in elaborating the country-level programming framework (UNIDO country programming briefs, UNIDO country support strategies and contributions to United Nations Country Strategy Notes (see para. 92 (b) above), mobilizing country-level funds for UNIDO programmes and projects, involving private sector institutions as counterparts, and providing information and advisory services to government and the private sector on industrial development issues. Based on this set of core duties, a new job description for UCDs has been prepared.

171. The delegation of increased authority to the field is actively pursued. A pilot initiative has been launched and is ongoing in two field offices (Madagascar and Thailand) where UCDs have been allocated a limited facility for industrial development support and advisory services. The UCDs in these offices have been delegated the authority to recruit local experts, and a set of related administrative procedures has been developed. These two cases will be reviewed by the end of this year and, based on the outcome of this evaluation, it is expected that in the next biennium, preferably all, or at least a number of other UCDs can be provided with similar resources from IDDA and RPTC funds.

172. With a view to ensuring coherence in the management and coordination of the UNIDO field representation programme, Director-General's Bulletin UNIDO/DG/B.190 was issued on 20 April 1995. This Bulletin establishes an interdivisional Policy Advisory Group on Field Representation with the Managing Director of CSPD as Chairperson. The same Bulletin provides a delineation of the role and functions of the UCD Coordinator and on the lead functions of different organizational units. The Policy Advisory Group has submitted recommendations to the Director-General on a broad range of issues from appointments, extensions, recruitment, non-renewal of contracts to the restructuring of the programme within the framework of available financial resources.

173. With a view to generating a closer dialogue between Headquarters and the field, concerted efforts have been made through regular letters on important policy and other matters to keep staff in the field fully informed of developments. Similarly, UCDs are sending to Headquarters, in addition to other reports, "Letters from the field", highlighting important events. Again within the context of enhanced communication and dialogue, three regional meetings for UCDs were held for Africa, Asia and the Pacific, and Latin America and the Caribbean in 1995. These meetings provided both Headquarters and the field the opportunity to exchange ideas, to keep abreast of latest developments and to plan future courses of action in a more efficient and effective manner.

174. UNIDO Headquarters and field offices are increasingly connected through modern communication networks, in particular through e-mail and the Internet. At present, nearly all field offices have e-mail connections, and the few remaining are in the process of being connected or can be reached through the UNDP e-mail address.

175. As a new initiative to broaden the basis of UNIDO field representation, regional focal points are being established, at minimal cost to UNIDO, within larger countries. Five such regional focal points have already been created in Indonesia, financed entirely by the Government, with UNIDO providing basic training and guidance to these offices. Similar efforts are under way in India.

176. Finally, UNIDO has undertaken strong initiatives to increase local funding of UCD offices and to mobilize extrabudgetary contributions to strengthen field representation.

III. MANAGEMENT REFORM

177. Management reform requires a systematic process of improving the way an organization carries out its duties and utilizing the resources placed at its disposal. Without a systematic process it is probable that major areas of potential improvement will be overlooked or avoided. In the reform of UNIDO, the Director-General has defined five clear areas for improvement of the Organization, each of which was outlined in the blueprint for reform (GC.5/23) presented at the last General Conference. These five areas of improvement have been: (a) focusing of activities; (b) adjusting the organizational structure to reflect changing priorities; (c) improving of marketing and communication, both internally and externally; (d) streamlining internal procedures; and (e) enhancing monitoring and management control.

178. While previous chapters of the present document address areas (a) and (b), and chapters IV and V cover area (c), the present chapter covers the improvements in internal procedures and enhanced monitoring and management control on which, in turn, increased effectiveness and accountability depend. Following a general discussion of the basis of reform, including principles and policies, a review is given of the mechanisms used for process improvement through re-engineering. Later in the present chapter, the crucial processes of personnel, technical cooperation and financial management are reviewed in detail, with highlights of changes that have been brought about by the reform.

A. New approaches in management policies, mechanisms and monitoring

Policies - defining the environment

179. The environment in which any reform process operates is defined by the policies and principles established to govern internal actions. These define what procedures are possible and which do not fit the culture being defined. At UNIDO, the following generally accepted management principles were introduced and/or re-emphasized by the reform:

(a) Empowerment - assignment of specific responsibilities, delegating authority and allocation of resources to those individuals who need them most, so as to introduce more management flexibility to facilitate achievement of results;

(b) Accountability - the obligation to answer for a responsibility conferred and authority delegated, to justify the decisions made and results achieved;

(c) Transparency - availability of information to decision makers (i.e., staff) and UNIDO stakeholders regarding the process of empowerment and accountability, and the management cycle of planning, implementation and monitoring/steering. This includes the clarification of performance standards and measurement;

(d) Balanced management - equal attention given to the activities of planning, implementing and monitoring;

(e) Result-oriented management - focus on specific measurable and controllable results, rather than on inputs and processes, with monitoring systems to ensure that results are achieved;

(f) Action/decision-oriented management - requisite decisions made quickly and actions taken by those who are responsible and authorized;

(g) Leadership - creation and communication of visions, encouragement of continuous learning and improvement, and support of cooperative working environments.

180. The above principles have been introduced to staff through a variety of tools, including a series of workshops for managers at all levels, speeches to staff, and management decisions that reflect them; they will be applied in a number of specific processes, as elaborated in paragraphs 183 to 187 below.

181. Another primary tool of establishing a clearly defined environment for management is the Director-General's Bulletin, where policies such as decentralization of authority or transparency are converted into the reality of redefined procedures. Specifically, a Director-General's Bulletin containing the above management principles has been issued as well as a bulletin providing guidance for the issuance of Director-General's Bulletins. Director-General's Bulletins are also being prepared or revised to establish guidelines for external correspondence, internal reporting, Management Control Meetings, the Policy and Management Committee, official travel, consultancy and others.

182. In addition, there have been a number of newsletters and communications distributed desk-to-desk that have been established to inform staff on the changing organizational culture and values at UNIDO. One document, the UNIDO Reform Bulletin, has recently been initiated to ensure that staff and Member States are not only aware of changes in procedures, but also of the principles behind the reform of UNIDO.

Mechanisms - Changes in procedures to match the new principles

183. While the principles and policies outlined above have established clear objectives for management, modified processes are the mechanisms ensuring that these are put into effect. It is through improved processes that transparency, responsibility and accountability are actually implemented. As mentioned above, two of the pillars of reform are improved procedures and enhanced monitoring and control. Each of these has entailed a number of changes that have improved the effectiveness and efficiency of UNIDO.

184. The modifications to processes by which UNIDO manages its resources and carries out activities for Member States are outlined below. UNIDO management and staff have, in reforming the Organization, put to use the technique of process re-engineering. Major processes of the Organization have been documented in their current state, and then streamlined, thus increasing efficiency by reducing unnecessary steps, while clarifying responsibility, authority and accountability for each step. The result is simpler processes and enhanced delegation of responsibility. One illustrative example, presented below, is the procedure for the recruitment of consultants.

185. In the past, while initiated by the substantive division, the responsibility for recruitment of consultants was distributed among a variety of individuals at all levels and in a number of divisions. Signatures were needed at all levels, from the initial backstopping officer, through the Director-General to Personnel Services and, depending on the activity, other parts of the Organization. There were more than 40 steps involved in the recruitment of, and payment to, consultants. As a result, officers were unable to ensure that the consultants required for their programmes would actually be recruited and results achieved on time. Given such procedures, efficiency was lost, responsibility diffused and accountability difficult to place. Under the process of reform, these procedures have been radically changed, keeping in mind the principles of empowerment and accountability. Various steps were merged or their order changed, or simply eliminated where no added value was found. The new procedure places responsibility and authority squarely in the hands of the substantive division. In return, managers can be held accountable for delays or poor quality of work of the consultants. Whereas in the past there was little effective monitoring of results, procedures and systems have now been established to ensure that resources are put to good use and that quality is reviewed.

186. Similar modifications have taken place in travel procedures, where Managing Directors have been delegated approval authority, while being required to submit regular reports to ensure accountability. A travel information system has also been created to allow travel coordination across the Organization and to facilitate monitoring.

187. It would be difficult to outline all the various areas where changes in procedure have taken place. Practically every major process has been reviewed and re-engineered, with some of the changes implemented just beginning to have an impact on productivity and effectiveness.

Monitoring and management control

188. Simplified procedures including greater delegation, depend on effective systems of monitoring and management control to ensure accountability and the early detection of deviations from plans. In the reform process, the systematic improvement of these systems has been one of the keys to enhanced operational effectiveness. New means of monitoring have been introduced, including improved management reports, based on transparency, automation and freedom of action on the part of those responsible for review.

189. One of the first steps taken following the approval of reform at Yaoundé was the formation of a Management Coordination and Monitoring Unit, dedicated specifically to increase accountability among staff. This Unit has worked with various units throughout UNIDO on the creation of management reports, including those covering the crucial areas of finance and personnel. Included in the financial report are figures for implementation of projects, distribution of budgets, expenditures against budgets, comparisons of costs by division, and breakdowns of figures to the branch level. Provided in both numeric and graphic formats, using modern software and data taken directly from the UNIDO mainframe computer, the financial report is a picture of the Organization that allows the Director-General to hold senior management accountable for the effective use of funds they have been allocated.

190. The personnel report provides clear and graphical representations of a variety of variables, including gender and level balance across the divisions, as the basis for crucial management decisions on post distribution. It thus serves as a tool to allow top management to monitor status against objectives.

191. As mentioned above, modifications in procedures and the delegation of authority require that monitoring systems are in place to provide the basis for accountability of empowered staff and compliance with overall organizational objectives. In the two examples given earlier, that of the modified procedures for consultancies

and travel, monitoring systems have been established to ensure that duplication is avoided, that proposed activities address organizational objectives and that funds generate maximum benefit.

192. In the past two years, the Internal Audit Unit has been actively engaged in the review of management control systems. Enhancement of accountability and transparency has been the main objective. The definition of UNIDO management principles outlined above has provided Internal Audit with the criteria of assessing established control systems and procedures and making recommendations for change. During the 1994-1995 biennium, Internal Audit has issued 29 reports, under which some 240 recommendations have been made. Many of those recommendations have been accepted and implemented. In contrast, during the 1992-1993 biennium, Internal Audit issued 17 reports with 87 recommendations. Furthermore, Internal Audit is now concentrating on the core activities of the Organization, thus providing more relevant recommendations and advice to management.

193. The Policy and Management Committee (PMC) is another tool introduced in the reform process. Comprised of the Director-General and senior management, including the Managing Directors, the PMC allows the Director-General to confer with his senior staff on directions to be taken by the Organization, with a view to incorporating varied views and the building of consensus. Meetings of the PMC have been held monthly or twice-monthly since its inception.

194. A new and effective mechanism for accountability is the Management Control Meeting (MCM), established earlier this year and held quarterly. MCM is an opportunity to review progress against objectives, with emphasis on those activities where deviation from plan has occurred or is expected to occur. Through each of these mechanisms - reports, management meetings and monitoring - performance monitoring elements have been strengthened in the operations of the Organization. A process of increasing accountability and responsibility has been set in motion.

B. Personnel Management

195. In the area of personnel management and administration, a number of key processes have been redesigned and streamlined. In addition to the simplification of consultant recruitment, as outlined in paragraph 185 above, the recruitment of Headquarters staff, particularly in the Professional category, has been made simpler and more transparent. Furthermore, the lateral reassignment of staff up to a certain level within a division will in the future be effected directly by the Managing Director concerned without the extensive involvement of Personnel Services. Finally, the separate administrative process so far required for awarding salary increments has been eliminated; the decision will now be integrated into the newly introduced performance evaluation system.

Performance evaluation

196. Performance evaluation is the cornerstone for management and personnel decisions. It is the most important vehicle for decisions on rewards, career development, management training, standards of conduct, sanctions and separations. Furthermore, the evaluation process provides the opportunity for the line manager to assess jobs systematically in the light of their relevance to the present and future performance goals of the organizational unit; it is an indispensable tool to planning, monitoring and assessing progress towards the achievement of results and overall objectives.

197. UNIDO has thus introduced - as an integral part of personnel management reforms - a new performance evaluation system that links individual to organizational performance. The new system that replaces the performance appraisal system introduced in 1989 was developed in consultation with staff representatives and also takes account of the recent guidelines recommended by the International Civil Service Commission (ICSC) and the Consultative Committee on Administrative Questions (CCAQ).

198. The implementation of the new system, which takes effect on 1 January 1996, is being supported by appropriate training that has already commenced. Implementation will be monitored closely and, if necessary, appropriate adjustments will be introduced in the light of experience gained.

Staff development

199. The main focus of the UNIDO staff development strategy has been to develop managerial competencies and attitudes conducive to supporting the process of change and reform towards a more effective management culture. Skill upgrading programmes are contributing to the creation of a workforce better able to adapt to changing demands for services.

200. Within the Management Development programme, workshops were held that provided understanding of new managerial concepts, working methods, and the tools needed to implement them. In this programme - covering leadership, team-building, communication and client-driven marketing workshops - staff enrolment quadrupled from 78 in 1993 to 309 in 1994; by October 1995 another 200 staff members had participated in the programme.

201. In addition, technical skills upgrading workshops crucial to the reform process were conducted with in-house expertise: Objectives-oriented project planning (OOPP) was strengthened to ensure project quality; Ecologically Sustainable Industrial Development provided information and techniques to incorporate environmental considerations into UNIDO projects and programmes; and the Gender Impact Analysis and Planning for Industrial Development workshop created a common understanding of gender and its place in industrial development. The External Training programme brought to UNIDO specialized knowledge supporting organizational reform and offering fresh insights into UNIDO programmes. Competitive strategic thinking, enterprise restructuring and privatization, Agribusiness seminar, Management of change, and Total quality management are some examples of external training attended by senior UNIDO managers. External Training also met the need for technical training in specialized computer and information systems applications.

202. In the next phase of increased streamlining, focusing and quality management, particular emphasis will be given to training and re-training of Professional and General Service staff. This training programme will be crucial in the restructuring and downsizing of the Organization as envisaged under the expenditure reduction scenarios for the 1996-1997 biennium. Top management leadership and Staff Council participation will be of key importance to the maximum utilization of staff potential.

C. Management of UNIDO services

203. Responding to shortcomings in the design and impact of UNIDO projects as identified in evaluation reports and by some major donors to the Industrial Development Fund (IDF), the Director-General issued Bulletin UNIDO/DG/B.177 that established new guidelines and procedures for the management of UNIDO services. These guidelines represent a fundamental change in the management of the project cycle and in the manner in which the requests of Member States for services are processed and implemented. The new approach is based on the following principles:

(a) UNIDO is a service organization supporting the industrial development efforts of Governments, institutions and enterprises in developing countries that are responsible for their own development process;

(b) New procedures are based on responsibility, accountability and transparency. For each stage in the new process a clear indication is given of the unit responsible, the action to be taken, the output to be produced and the time-frame to be observed;

(c) The process provides for screening at an early stage to ensure that the Organization focuses on those service requests that correspond to country requirements, the mandate and priorities of UNIDO, its technical capabilities and resource availability;

(d) The quality assurance function has been decentralized to ensure an early involvement of quality advice in the project development and formulation process. Where warranted by project size and importance, OOPP methods and workshops are used to further improve the quality of project design;

(e) The basis for the programming of UNIDO services has been strengthened through the new concept of UNIDO country support strategies and country programming briefs;

(f) Teamwork during programme and project implementation is actively encouraged through concrete team-building mechanisms.

204. The changes introduced have significantly improved the design process. This is clearly demonstrated by the statistics presented below in paragraphs 213 to 215 and figure 4.

205. After a year's experience with the new approach as contained in Director-General's Bulletin DG.B/177 and also following the introduction of the seven thematic priorities, it was determined that the project cycle management needed further adjustment while the basic principles of the new approach continue to be valid. These principles include the need for a programming framework (now available on a new and focused basis in terms of the seven thematic priorities), a screening process, the need for teamwork under a team leader with clear delineation of responsibilities, and the application of common quality standards for projects financed from all sources of funds. An interdivisional working group was established to review the new procedures, identify potentials for improvement and formulate concrete guidelines and procedures also for the post-approval stage of the project cycle. The findings of this working group, which are to be translated shortly into new Director-General's Bulletins, are presented below.

206. The new focus on the seven thematic priorities allows UNIDO to use their concrete definition as a basis for programming. New activities that UNIDO will initiate will therefore relate to those areas where the Organization has proven expertise and a critical mass. It

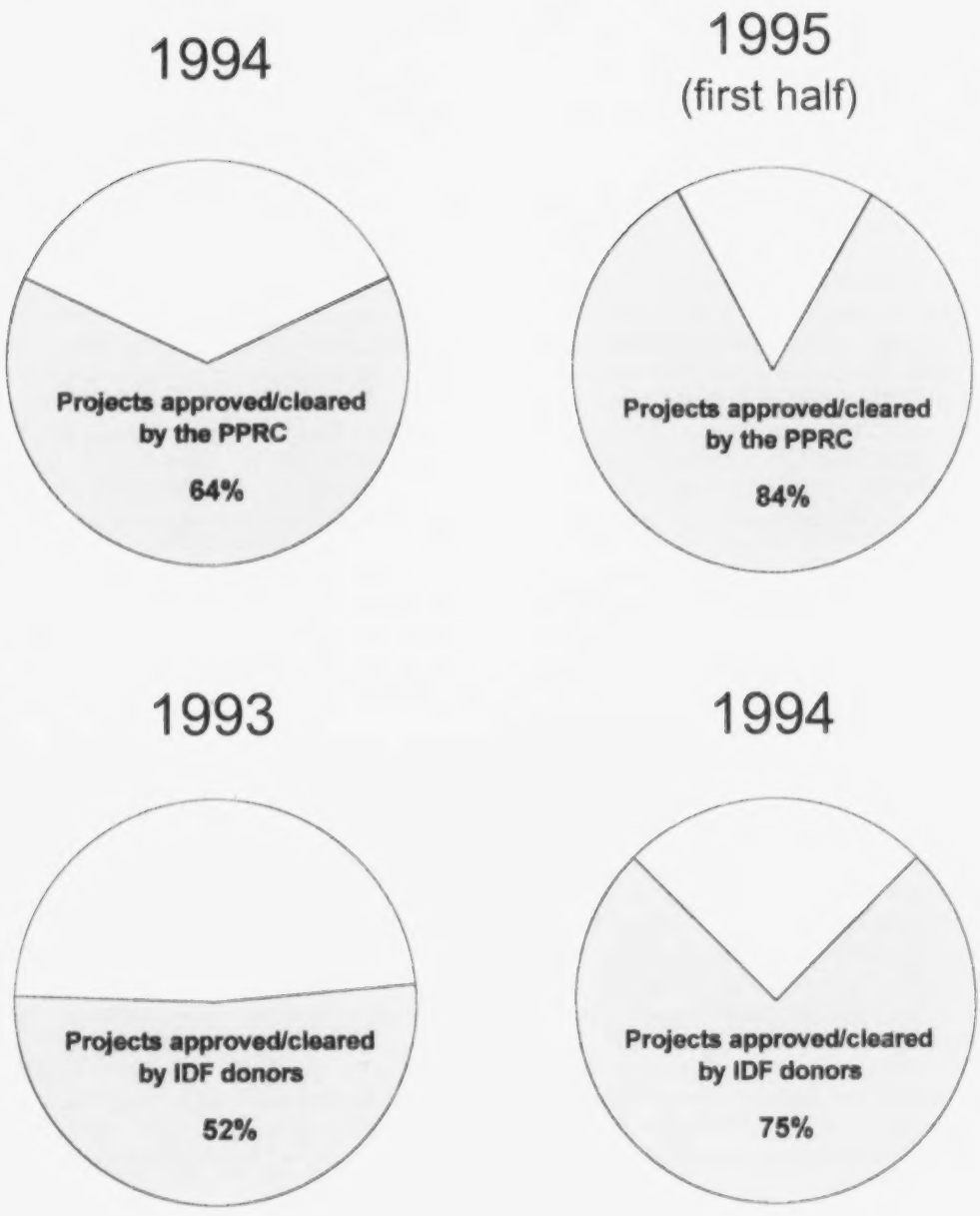


Figure 4. Approvals by the Programme and Project Review Committee

is expected that this will result in better integrated and larger support programmes of UNIDO to priority development activities of Member States. These larger programmes will both require and enable more substantial preparatory work as well as the application of the OOPP methodology in order to improve their quality and ensure that they effectively respond to real needs.

207. This approach will also allow UNIDO to manage better than before the overall portfolio of activities that the Organization develops and implements. It is proposed that the Management Control Meeting, which takes place quarterly, will clear programmes for development and review progress, both in terms of developing and approving programmes as well as in implementing them. The review will also serve to ensure a balanced overall portfolio. This new approach will speed up the development of programmes as teamwork (see paras. 209-211 below) with clearly assigned responsibility eliminates the rather slow step-by-step procedures that currently ensure contributions of all relevant parties to the process.

208. In the implementation phase, functions related to the mobilization of project inputs, currently carried out for all projects centrally in the Operational Support Division (OSD), are to be moved to the offices that are actually responsible for the project. This is expected to result in an increase in implementation speed and efficiency as long communication lines between different divisions are eliminated. At the same time it is expected that this will improve the coordination between the input delivery process and the technical management of the projects, resulting in a better quality of project implementation. In addition, important cost-effectivenessgains are expected that can be used to free the specialized technical staff from the currently considerable administrative burden, thus enabling a higher level of technical support to programmes and projects. This concentration of responsibilities in the office that is responsible for the results of a project will clarify responsibilities and therefore accountability. As part of the change, and in order to support the process, increased project-level audits will be carried out.

Team-building

209. New patterns of team-building and teamwork were established in 1994, based essentially on a redefinition of roles in relation to the project cycle. While in an increasing number of cases this has been successfully applied, it has for good reasons remained limited to larger and more complex projects. In some areas however other teams have developed to deal with some key areas of UNIDO activities in a multidisciplinary way. For example, in the area of quality, an interdivisional team was established to develop and work out a coherent conceptual framework for all UNIDO activities in the subject area. This team has performed in an advisory role to PPRC on quality-related projects. Similarly, an interdivisional team has been established to guide UNIDO work on the promotion of small and medium enterprises.

210. In the new approach to the focusing of UNIDO services and the related refinement of the project cycle, teams will play a central role. The key to effective teamwork is that each team member has a clear role and a clear value added. This was not always possible with the small projects that have dominated the portfolio of the Organization in the past. As the changed focus will lead to the development of larger and multifaceted programmes, teamwork to develop and manage these programmes becomes a requirement. While most team members will each be responsible for one or more component projects, separate roles for funds mobilization and quality assurance may be envisaged.

211. Teamwork along the lines indicated in the previous paragraph - aimed at developing and implementing a consistent UNIDO approach to the central areas of activity - will be systematically applied to the component programmes under the seven thematic priorities.

The approval process

212. The quality criteria to be applied throughout the development process, and specifically by the Programme and Project Review Committee, continue to be as defined in Director-General's Bulletin DG/B.177 on Guidelines for the management of UNIDO services:

(a) Relevance. The extent to which the purpose/objective of the UNIDO service is: (i) linked to the solution of important constraints faced by the programme of the clients; (ii) contributing substantially to achieving the purpose of the project of the client at the level of the beneficiaries; (iii) contributing to the achievement of the development objectives of the country;

(b) Cost-effectiveness. The resources required to provide the necessary inputs (national experts, international experts, UNIDO staff) at the most reasonable cost in relation to the purpose of the proposed UNIDO service and of the programme of the client to achieve the objective at the level of the beneficiaries;

(c) Sustainability. The capability of the client (in staffing and financial terms) to maintain the outputs that were produced by the UNIDO service and if the impact of UNIDO service is environmentally sustainable.

213. To ensure prompt action as soon as a proposal is fully prepared, in 1994 the frequency of meetings of PPRC was considerably increased. Both the main Committee and the Subcommittee (the latter reviews proposals with a value of $200,000 or less) are now meeting weekly as compared to once every two weeks before. The average time required between receipt of a project document by the Secretariat of the Committee and the decision has been reduced to 13 working days. This includes the one week that members of the Committees require to study the documentation.

214. In 1994, PPRC cleared 35 per cent of submitted projects with a further 29 per cent cleared subject to minor corrections for a total clearance rate of 64 per cent (see figure 4). A total of 36 per cent was either rejected (12 per cent) or returned for reformulation (24 per cent). It must be noted that a considerable part of these projects was prepared before the reform measures were implemented. In the first half of 1995 these statistics improved to 46 per cent cleared and 38 per cent cleared subject to minor corrections. Only 16 per cent were either rejected (1 per cent) or returned for reformulation (15 per cent). This constitutes a significant progress reflecting the impact of the new decentralized quality assurance system. It must also be noted that rejection is not only linked to the quality of the project design. Often a project is rejected because it does not fulfil the criteria for specific UNIDO-managed sources of funds or, in the judgement of the Committee, does not fall within the mandate of UNIDO.

215. Another objective measurement for the improved functioning of the screening and project development/approval processes is obtained when looking at projects submitted to IDF donors after PPRC has cleared such projects. While 52 per cent of such projects were accepted by donors in 1993, this rate increased to 75 per cent in 1994. For 1995, figures are not yet available but indications are that this new and much improved level has been maintained. This clearly demonstrates both the increased quality of projects submitted to IDF donors as well as the improved upstream dialogue in joint UNIDO-donor programme development.

216. The acceptance rates of proposals prepared by UNIDO are also very high for other sources of funds. For the technically highly specialized Montreal Protocol-funded projects, no projects designed on request have been rejected on grounds of design quality.

217. It is anticipated that with the new approach outlined above, approval rates might even further increase as enhanced preparatory work and integration of quality assurance in the whole design process will further improve quality. Also, the focused approach in itself allows for increased relevance and sustainability as interrelated problems are addressed in an integrated way. In addition, early cooperation with potential donors will improve understanding of the proposals made.

D. Financial Management

1. Rationalization of expenditures and cost savings

218. The progress achieved in this area falls into two categories: (a) those reductions achieved in budgetary allocations for administrative and support costs; and (b) the more efficient utilization of financial resources, including the reinvestment of resources.

Reductions achieved in budgetary allocations for administrative and support costs

219. The process of reducing administrative and support costs began during the preparation of the 1994-1995 budgets that included reductions in a number of administrative objects of expenditure. During the current budgetary period, further cost reductions have been achieved in operating costs, in particular those related to the operating of the VIC complex and in support of UNIDO Headquarters activities. The estimates in the proposed programme and budgets for 1996-1997, as presented in document IDB.14/2 and Corr.1 reflect the ongoing process of reducing budgetary allocations for administrative and support costs. In the proposed budget, both staff and non-staff allocations are projected for the 1996-1997 biennium at lower levels in real terms as compared to the current biennium. Administrative and support costs will be further reduced within the expenditure reduction plans as a response to expected shortfalls in the payment of assessed contributions.

220. Overall reductions achieved in general operating expenditures, supplies and materials, acquisition of furniture and equipment and EDP non-staff costs are as follows:

(a) The 1994-1995 budgets, based on the new organizational and staff structure, reflected a reduction of $1.8 million or 7.1 per cent compared to the previous budget proposals;

(b) The proposed programme and budgets for 1996-1997 reflect a reduction of $3.3 million or 13.2 per cent as compared to the budgetary allocations for 1994-1995. This reduction was achieved notwithstanding the additional allocations provided in the 1996-1997 budgets to support UNIDO field offices.

221. The transfer of administrative responsibility for the provision of joint language and documentation services from UNIDO to UNOV, which became effec-

tive as of 1 April 1995, will lead to cost reductions in respect of the services provided. These cost reductions are expected to come about through efficiency savings anticipated under the new arrangements and reduced documentation required by UNIDO as compared with current budgetary provisions. The proposed programme and budgets for 1996-1997 reflect the cost reductions achieved in the Language and Documentation Services, which led to a redeployment of resources of $2.6 million to substantive programmes.

More efficient utilization of financial resources

222. With the clear intention of making more efficient use of available financial resources and rationalizing expenditures to the extent possible, a number of initiatives were introduced during the reform process.

223. The recommendations of the Task Force on Rationalization of Expenditure and Cost Reductions led to the introduction of measures to promote cost-efficiency. In a report to the tenth session of the Programme and Budget Committee (PBC.10/14), the Director-General outlined the measures taken or planned. Measures were taken in the following areas:

(a) Travel: Improved procedures in the approval process for travel, together with the utilization of the least costly travel options for staff travel, has led to savings in travel budgets, permitting partial re-allocation to programmes requiring additional funding. In respect of home leave travel, new arrangements were introduced providing for reduced lump-sum arrangements and the waiving of other travel entitlements in respect of home leave;

(b) Electronic data-processing: The conclusion of a facilities management agreement with IAEA to provide a range of services, including management, processing, applications development and software led to immediate savings against the budgetary allocations. Resource reallocations were made in the programme to improve electronic data-processing services, including the development of electronic communication methodologies, supporting end-users and applications development. The new arrangements with IAEA, together with other cost reductions, are expected to result in savings against the 1994-1995 budgets of $1.5 million;

(c) Electronic banking: The further development of electronic banking procedures with the two main banks in Vienna with whom UNIDO does business has led to reduction in the volume of manual transactions and improved the efficient processing of work in the Accounts and Payments and Treasury Units;

(d) Communication/telephone system: A review of UNIDO communication procedures and costs enabled the identification of opportunities to reduce costs both immediately and over the longer term. Procedures were introduced that permitted the charging of project-related communication costs to project budgets. The savings to be achieved through the new procedures and as a result of tighter cost controls were reinvested in a new telephone system. The new system, which is expected to be operational before the end of 1995, will lead to improved controls over communication costs. In addition, the new system will bring about significant efficiency improvements in UNIDO communications;

(e) General operating costs: Budget allocations for general operating costs have been reduced during the current biennium to offset the shortfall in cash incomes caused by late or non-payment of assessed contributions. Expenditure reductions will be realized through the deferral of planned activities, reductions in supplies and materials and in the planned programme for replacement of furniture and equipment. The reductions expected to be achieved in the VIC operating costs of $1.5 million for the biennium will be offset by a reduction in UNIDO income from the other organizations sharing in the VIC costs of $1.0 million, leaving a net savings of $0.5 million against the original budget. The UNIDO portion of specific operating costs for repair and maintenance, supplies and materials, communications, miscellaneous costs and furniture and equipment is expected to be below the budget for 1994-1995 by $1.4 million.

224. UNIDO is focused on the need to reduce non-essential costs at every opportunity and the heightened awareness by UNIDO staff of the need for cost consciousness is expected to lead to a more cost-effective utilization of scarce budgetary resources.

2. Operational budget allocations

225. The modalities for allocating operational budget resources to UNIDO programmes were comprehensively revised during the current biennium. Following the presentation to the Board of document IDB.13/28 containing a review of the required scope and content of the operational budget and of its relationship to the regular budget, the Secretariat introduced the new modalities when preparing the budgetary estimates and programme allocations for the 1996-1997 biennium.

226. The basic aim of the new modalities is to ensure that operational budget resources are allocated to those programmes incurring support costs for technical co-operation activities for which the Organization is partially reimbursed. In determining the share of operational budget resources available for specific programmes, a formula was developed that differentiates the time spent by Professional staff in support of technical cooperation activities from the time spent on regular budget-funded activities. The application of the formula to the total budgetary allocations for supporting programmes established the appropriate level of operational budget resources to be allotted to such programmes.

227. The more rational basis now being applied in the allocation of operational budget resources improves cost identification and control and will facilitate the introduction of a reporting system that will allow the comparison of incomes earned with expenditure incurred for programmes supporting technical cooperation activities.

IV. EXTERNAL RELATIONS AND COMMUNICATION

A. Interaction with Member States

228. As mentioned in the *Annual Report of UNIDO 1994* (IDB.14/10, chap IV, para. 9), improved communication with Member States has been a guiding principle of reform.

229. The reform process of the Organization was initiated through, and continues to be the subject of, intense consultations with Member States. In particular, during 1995 a series of informal meetings have been organized with various regional groups for that purpose.

230. In addition to the usual contacts maintained with Permanent Missions, ministries, governmental and intergovernmental organizations, an important aspect of the reform process has been to involve Member States in the planning, development and follow-up of the activities of the Organization, both at the sectoral and regional levels. In particular, informal briefings are now being held on a regular basis with geographical groups to review the activities of UNIDO in the respective regions.

231. Further to the well-established practice of informal meetings with major donor countries to review and discuss the utilization of voluntary contributions (in particular the Industrial Development Fund) the Secretariat has initiated parallel periodic consultations with recipient countries. The policy dialogue with key decision-makers in recipient countries has also been intensified through existing mechanisms such as the joint committees. New joint committees were established with the Czech Republic, the Russian Federation, Slovakia and Viet Nam.

232. Briefings on the documentation for the policy-making organs which, as in the past, were organized for the Permanent Missions in Vienna, in 1995 were for the first time extended to the Permanent Missions in Geneva and Bonn in connection with the proposed programme and budgets, 1996-1997.

233. Briefings to regional groups on UNIDO programmes and reform process were also intensified in Geneva and New York.

234. In compliance with requests of the General Conference, in addition to the Conference of African Ministers of Industry, two regional ministerial meetings were held in the second half of 1995 for the Latin America and Caribbean region and for the Asia and Pacific region. These regional meetings have provided a forum to ensure that the newly defined substantive focus of UNIDO is in line with regional priority needs.

235. Evaluation exercises are increasingly conducted in cooperation with Member States and the results communicated to their capitals and to their Permanent Missions in Vienna. In-depth project evaluations normally comprise nominees from the donor and recipient countries. An example is the recent evaluation of the capital goods project in Latin America where the results of the exercise were presented in a meeting to which representatives in Vienna of the participating countries were invited to attend. Results of programme evaluations requested by policy-making organs are not only submitted to Member States through the normal channels, but in special briefing sessions as well. For instance, the results of the evaluation of special trust fund projects were presented in briefing sessions in October to the Permanent Missions.

Non-governmental organizations

236. The Secretariat is also intensifying its cooperation with non-governmental organizations (NGOs). A database is being set up of NGOs whose work is of relevance to UNIDO. Furthermore, for the first time, an NGO Forum is being held prior to the sixth session of the General Conference on the subject of Cleaner Industrial Production.

B. Interaction with United Nations system forums

237. Since the beginning of the reform process, UNIDO has enhanced its active participation in system-wide efforts to increase effectiveness and improve the division of labour between agencies. This involved preparation for and representation at major United Nations conferences as well as renewed approaches to promote inter-agency cooperation. In this context, the Organization reported on its reform process and stressed the need to enhance the role of industrial development in the overall development agenda.

238. The Director-General and senior staff of the Organization actively participated in United Nations forums and debates, such as the high-level segment of the Economic and Social Council and the Second Committee of the General Assembly, especially on matters concerning international development co-operation and policy issues relating to the division of labour within the system. The Organization also participated in the discussion of the efforts of the Secretary-General in formulating an Agenda for

Development. At those forums, UNIDO continued to emphasize that the United Nations system as a whole must work to promote sustainable economic development as the single most important factor in preventing social unrest, as well as national and regional conflicts.

239. The increasing number of global issues - and above all the environmental threats affecting the entire planet - require global responses that can best be developed within the United Nations system. This is contingent upon the shared vision, agreed objectives and common approach binding together United Nations funds and programmes, Bretton Woods institutions and the United Nations specialized agencies. The Director-General presented a report to the forty-ninth session of the General Assembly (document A/49/347) in which the contributions of industrial development and the role of UNIDO in achieving key global development objectives were outlined. The General Assembly unanimously welcomed the reform of UNIDO and stressed "the importance of industrialization as a dynamic instrument of growth that is essential to rapid economic and social development of developing countries" (General Assembly resolution 49/108).

240. Since the beginning of 1994, three major global conferences were held under the auspices of the United Nations: the International Conference on Population and Development at Cairo, Egypt, in September 1994; the World Summit for Social Development at Copenhagen, Denmark, in March 1995; and the Fourth World Conference on Women at Beijing, China, in September 1995. The objectives of these conferences were to formulate integrated system-wide response to development constraints in the areas concerned and to mobilize international support for concrete remedial action.

241. UNIDO actively participated in all three conferences, with more emphasis, in accordance with the mandate and priorities of the Organization, placed on the two conferences held in 1995. Based on thorough in-house preparatory work, UNIDO provided conceptual inputs through position papers on Social progress through industrial development and Global industrial change: women and socio-economic progress. Other initiatives launched by UNIDO during the Fourth World Conference on Women consisted of the celebration, on 6 September 1995, of the first Women in Industry Day, the creation of a Women in Industry Recognition Award and the mounting of an exhibition entitled "Women in Industry".

242. Programmes following up on the recommendations of these conferences have been developed by UNIDO in those areas falling under the defined focus of the Organization. In this, support to the development of rural and small enterprises and entrepreneurship development with a focus on women is playing a key role (see document GC.6/23).

243. UNIDO is in the process of elaborating its substantive contribution to the Second United Nations Conference on Human Settlements (Habitat II), to be held at Istanbul, Turkey, in June 1996. To this end, a colloquium on Industrialization and Urban Development was held in Vienna in October 1995.

V. PUBLIC INFORMATION AND IMAGE-BUILDING

244. From the very outset of the reform process, it became clear that the challenge facing UNIDO was as much related to focusing its activities as it was to enhancing its image in the global industrial community. The Secretariat has thus mounted a comprehensive programme of public information through a variety of new initiatives and targeted measures to provide better information on and mobilize effective support for the work of UNIDO.

New publications

245. Of the many new or redesigned publications, just a few are highlighted here. UNIDO has completely changed the scope, format, design and style of its Annual Report and - building on the positive response from Member States - will continue to improve this publication, particularly with more emphasis on the impact of the work of the Organization. In a new initiative, the *Annual Report of UNIDO 1994* was complemented by "UNIDO 1994: The year in review". This new publication draws on the information content of the Annual Report but, with a different style and appearance, is aimed at the public at large as a guide to the work and reform of the Organization.

246. UNIDO has also issued a Projects with Impact folder containing brief accounts about 25 successful programmes and projects covering a range of geographical areas and priority sectors. In each case, the human aspect is emphasized, highlighting the impact of the project on the people of a particular area or country. Two similar folders were produced, for the Asia and the Pacific region and the African region, containing projects financed under IDDA funds. The latter was distributed at the Conference of African Ministers of Industry (CAMI) held in Botswana in May 1995. UNIDO intends to prepare a similar folder for each region.

247. A new bimonthly magazine for external readership was launched under the title, UNIDO matters. The pilot issue appeared in July 1995 with a focus, *inter alia*, on the Montreal Protocol and the World Summit for Social Development. The second issue of this magazine focuses on the Fourth World Conference on Women.

248. Building on these and other materials, the UNIDO Public Information and Information Products Service provides advice to the various substantive divisions on both the form and content of information materials. The aim is to achieve overall coherence in the presentation of information on different programmes of UNIDO.

249. The image-building activities of the Organization have been further stepped up under the accelerated reform process with a view to achieving consistency in UNIDO messages. For that purpose, all significant events (such as global conferences and forums) and high-level missions are coordinated by a small group of staff from the areas concerned. As part of a comprehensive public information plan, relations with key actors in the global media have been strengthened and programmed press conferences held to support significant events such as the Global Forum on Industry in October 1995.

250. UNIDO has launched a number of further new initiatives to sharpen its public profile and recognition as leading international organization promoting sustainable and socially responsible industrial development. These comprise:

(a) A UNIDO Award for Entrepreneurial Excellence in Industry (working title). While the first award will only be given in 1997, the basic orientation of the scheme will be announced at the Sixth Session of the General Conference. The award will recognize in particular socially and environmentally conscious business ethics as essential dimensions of quality and credibility in entrepreneurship. Further UNIDO awards will also be considered at the global and regional levels for outstanding performance in industrial competitiveness, innovation, quality management, SME development, environmental protection and involvement of women in industry.

(b) A UNIDO Seal for Accreditation Bodies. A major problem facing developing countries is the limited international recognition of quality certificates issued in developing countries. UNIDO will therefore develop a quality seal to enhance specially the international recognition of ISO 9000 certificates. The scheme will be based, *inter alia*, on harmonized procedures, common assessment methodologies and transparency of certification processes. It will be announced at the sixth session of the General Conference for implementation in 1996.

(c) A UNIDO Certificate of Recognition will be issued to a select number of institutions in developing countries that have excelled in providing effective and sustainable services to industry, based on catalytic UNIDO technical cooperation services. The first certificate will be presented at the sixth session of the General Conference.

(d) A UNIDO Partnership Programme is being developed as a successor to the previous Special Advisory Group. The members - a maximum of 20 drawn from the public and private sectors of developed and developing countries and economies in transition - will advise the Director-General on key UNIDO programmes and areas of focus and will play a key role in enhancing the image of the Organization in their countries.

(e) UNIDO industry advisory councils will be promoted (starting in Italy and France) in developed and developing countries as well as in economies in transition in order to create and reinforce effective linkages with the constituencies of the Organization.

Annex

DOCUMENTS RELATED TO THE REFORM PROCESS

IDB.11/CRP.4	Progress report on the work of the Task Force on Priorities and Structural Reform of UNIDO. Submitted by the Director-General
IDB.11/CRP.7	The emerging pattern of demand for UNIDO services: a synopsis. Submitted by the Director-General
IDB.11/CRP.8	New organizational structure of UNIDO: Composition and coordination of major organizational units. Submitted by the Director-General
GC.5/23-IDB.11/31	Priorities and structural reform of UNIDO. Proposals by the Director-General
IDB.12/5	Policy framework of UNIDO - organizational and staff structure. Progress report by the Director-General
IDB.12/CRP.4	Policy framework of UNIDO - Organizational and staff structure. Information supplementary to IDB.12/5. Submitted by the Director-General
IDB.13/19	Revised draft medium-term plan, 1996-2001. Proposals of the Director-General
IDB.13/27 and Corr.1	UNIDO policy framework - Organizational and staff structure. Progress report by the Director-General
PBC.11/11	Review of UNIDO Country Director programme and the proposal of a new framework for field representation. Submitted by the Director-General
IDB.14/2-PBC.11/2 and Corr.1	Programme and budgets, 1996-1997. Proposals of the Director-General
IDB.14/10-PBC.11/10	*Annual Report of UNIDO 1994*
IDB.14/13	Improving UNIDO programmes through a strengthened focus. Proposals by the Director-General
IDB.14/25	UNIDO Country Director programme. New framework for field representation. Note by the Director-General
IDB.14/CRP.4	UNIDO policy framework - organizational and staff structure. The reform process of UNIDO: A synoptic review and outline for reporting to the sixth session of the General Conference. Submitted by the Director-General

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UNIDO POLICY FRAMEWORK — ORGANIZATIONAL AND STAFF STRUCTURE

The UNIDO reform

Report by the Director-General

Corrigendum

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